PRESIDENT'S FISCAL YEAR 2006 BUDGET WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JOHN SNOW

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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TUESDAY, FEBRUARY 8, 2005

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to call, at 10:10 a.m., in room 1100, Longworth House Office Building, Hon. William M. Thomas (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 01, 2005
No. FC–1

CONTACT: (202) 225–1721

Thomas Announces Hearing on President's Fiscal Year 2006 Budget with U.S. Department of the Treasury Secretary John Snow

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2006 within the jurisidiction of the Committee on Ways and Means. **The hearing will take place on Tuesday, February 8, 2005, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from the Honorable John Snow, Secretary of the Treasury. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

On February 7, 2005, President George W. Bush is expected to deliver his fiscal year 2006 budget to Congress. The budget will detail his tax proposals for the coming year. The Treasury plays a key role in many areas of the Committee's jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Thomas stated, "The President's budget will include tax and other proposals related to Treasury functions within the jurisdiction of the Committee. I look forward to receiving the President's budget and discussing his proposals with Secretary Snow."

FOCUS OF THE HEARING:

Secretary Snow will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*109th Congress*" from the menu entitled, "*Hearing Archives*" (*http://waysandmeans.house.gov/Hearings.asp?congress=17*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business Tuesday, February 22, 2005. **Finally**, please note that due to the change in House mail policy,

the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman THOMAS. Good morning. Today marks the first in a series of hearings to examine President Bush's proposed budget for the Fiscal Year 2006. Secretary John Snow of the United States Treasury Department is our guest today. Mr. Secretary, we welcome you back, and we look forward to your testimony. Since your appearance before the Committee about a year ago, the economy, in the Chair's opinion, has performed extremely well. More than 2.2 million jobs were created last year, aftertax income rose nearly 9 percent, and average economic growth was 4.4 percent. Americans now keep more of their paychecks, and America's businesses are better positioned to compete in the global marketplace and create more jobs at home. These positive outcomes, I believe, are the result of well-timed tax relief proposed by the President and modified and approved by Congress.

During the past 4 years, we have done a great deal to improve the Tax Code. We have lowered marginal income tax rates, reduced the tax burden for families and job creators, lowered the tax rate on capital gains and dividends and enhanced savings incentives in pensions and Individual Retirement Accounts. But, clearly, much more needs to be done. The Chair compliments the President in initiating a commission to examine more fundamental tax reform, and we look forward with working with the Administration on that effort. During the State of the Union message last week, President Bush firmly framed Social Security in policy terms instead of political ones, and I commend the President for opening the Social Se-

curity debate to ensure that Social Security remains safe and secure for our children and grandchildren.

In the coming weeks, this Committee will engage in an even broader discussion about retirement security. Our society is aging, and we have a responsibility to address its changing needs. Social Security, as in its initial creation, is a key component of that retirement security. It is not, however, the entire need of seniors, especially today. Medicare, long-term or chronic care, pension reform, savings incentives are critical pieces as well and will be examined. Our goal is to develop a bipartisan approach that helps protect the future of our children and grandchildren, while providing them with greater opportunities to build nest eggs for their anticipated golden years. Mr. Secretary, thank you. As managing trustee of Social Security and Medicare, we are very interested in hearing your perspective on how to tackle the challenges facing this Nation. Now it is my pleasure to recognize the gentleman from New York, Mr. Rangel, the Ranking Member, for any comments he may wish to make.

[The opening statement of Chairman Thomas follows:]

Opening Statement of The Honorable Bill Thomas, Chairman, and a Representative in Congress from the State of California

Good morning. Today marks the first in a series of hearings to examine President Bush's proposed budget for Fiscal Year 2006. Secretary John Snow of the U.S. Treasury Department is our guest today. Mr. Secretary, we thank you for coming and look forward to your testimony.

Since your appearance before the Committee a year ago, the economy has performed extremely well. More than 2.2 million jobs were created last year; after-tax income rose nearly 9 percent, and average economic growth was 4.4 percent. Americans now keep more of their paychecks and America's businesses are better positioned to compete in the global marketplace and create more jobs at home. These positive outcomes are the result of well-timed tax-relief proposed by President Bush and approved by the Congress.

During the past four years, we have done a good deal to improve the Tax Code. We have lowered marginal-income tax rates, reduced the tax burden for families and job creators, lowered the tax rate on capital gains and dividends, and enhanced saving incentives in pensions and IRAs. The Committee looks forward to working with you to continue down this path of tax reform.

During his State of the Union address last week, President Bush firmly framed Social Security in policy terms, instead of political ones. I commend the President for opening the Social Security debate to ensure that Social Security remains safe and secure for our children and grandchildren.

In the coming weeks, this Committee will engage in an even broader discussion about retirement security. Our society is aging and we have a responsibility to address its changing needs. Social Security is an important piece of retirement security. Medicare, long-term and chronic care, pension reform and savings incentives are critical pieces that also should be examined. Our goal is to develop a bipartisan approach that helps protect the future of our children and grandchildren, while providing them with greater opportunities to build nest eggs for their golden years.

Mr. Secretary, thank you for coming today. As managing trustee of Social Security and Medicare, we are very interested in hearing your perspective on how to tackle the challenges facing this nation.

I now recognize the gentleman from New York, Mr. Rangel, for any opening statement he may have.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. Secretary, I think that the Chairman would advise you that we want to accommodate your very busy schedule. So, therefore, instead of reading a lengthy opening statement, what I would want

to do is to share with you that I intend to put out a press release saying that the Social Security proposal that the President is talking about is dead, that it is not coming here, it is all over. One, because if we don't get it this year, certainly the President wouldn't ask my Republican friends to even touch that third rail in an election year; and, second, if you were serious about it, certainly it would be included in the budget. So, I will tell them to put in my press release there is no money in there for the budget, and maybe we might get into the fact that the war is over, since that is not in the budget. I may get a chance to say, and don't put any faith with those bonds that are in the Social Security Trust Fund, because the President said that is not money either. So, I will tell my Communist friends in China, be careful what they buy, because it is not cash that they can depend on. So, generally speaking, I will be going in that direction. I yield back the balance of my time in an effort to keep this short.

Chairman THOMAS. Mr. Secretary, as you can see, it is a new year, but some things don't change. If you have a written statement, without objection it will be placed in the record; and you may address us in any manner you see fit.

STATEMENT OF THE HONORABLE JOHN W. SNOW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Mr. SNOW. Thank you very much, Mr. Chairman, Ranking Member Rangel, Members of the Committee. It is always a pleasure and a great honor to appear before this Committee, which does so much to shape the contours and outlook for the American economy by your actions. I want to begin by complimenting you for the leadership the Committee has shown in the tax legislation that you put in place, which is clearly at the very core, at the very center, at the very heart of the fact that the American economy is now the best-performing industrialized country in the world, the best-performing major industrialized country in the word.

That wouldn't happen by accident. It happened because of conscious leadership, Mr. Chairman, you and Members of this Committee took in putting into place the lower marginal tax rates that you referenced, the reductions in capital gains, the reductions in dividend rates, the expensing, and I don't need to go on. You know what you did. But I think it is only fair to say that it is because of your action in doing that that the American economy is now performing so well, with the highest growth rates, gross domestic product (GDP) growth rates we have seen in some 20 years, with the unemployment number down, 5.2, with jobs being created, with inflation low, with productivity high, with the American economy back on its feet and strong, expanding, with a very bright, very bright future ahead. We need to keep that going. The President's budget is designed to do that. That is why it calls for a number of measures to strengthen the economy, including, importantly, making the tax cuts permanent. I would urge to you act on that.

The President's budget also, though, frames the issue of the deficit, calls attention to the deficit, says the deficit is unwelcome, says the deficit is too large, says it needs to be addressed. There are only two ways to really deal with the deficit, as you know. One

is continue to have strong growth, because with strong growth we see government receipts rise, and we are seeing that now. The rising receipts lie at the very center of why the deficit situation is improving. We need to keep those receipts strong. That means jobs, that means business is growing and expanding and investing. The other part of the equation, though, obviously is spending and spending restraint. The budget calls for tight spending restraint, just as it did last year. Many—Congressman Rangel pronounced the call for spending restraint dead on arrival last year, and yet the budget that came out, approved by the Congress, reflected the very sort of tight spending controls that the President called for. I very much think and hope that will be the case again this year. The President has also said, though, that we can't simply worry about the next 5-year budget window, we need to think about the longer-term budget window.

We are on a path to reduce the deficit in half over the course of the next few years. That is in the budget. I think it is very doable. The larger issue is the unfunded mandates, the obligations that we have to the future generations, and there the President has called for action on Social Security. I think it is an act of great leadership on his part and courage on his part to confront that issue that, as you say, Congressman Rangel, some people call the third rail of American politics. Why does the President want to do it? Why does he say it is an urgent issue? He wants to confront it for two very important reasons. One, the future health of our economy depends on dealing with the $10.4 trillion deficit obligation that hangs over us, an obligation that, if we don't deal with it, grows every year, becomes larger and larger and more difficult to confront. I think we have an obligation to future generations to deal with that. As the President said, this shouldn't be a partisan issue. The future of our children's well-being should be an issue that we can all collectively act on.

It is also important, though, because the longer we wait, the larger the problem is for future generations. By acting on it now we can perform an act of intergenerational fairness to the future generation. The longer we wait, the larger the burden on future generations. Let me say that this is clearly an issue of basic arithmetic, not ideology. The numbers you all know well. When the system was put in place back in the thirties, there were some 40 workers for every retiree, people didn't live as long, and they had more children. In 1950, that ratio was 16 to 1, 16 workers for every retiree. Today, it is about 3 to 2. With the baby boomers coming on stream in just a few years—2008 is the first retirement year for the baby boomers. With the baby boomers coming on stream, that ratio is going to go to about 2. A pay-as-you-go system works all right when you have got 16 workers. It doesn't work very well when you have got 2 workers for every retiree. This is fundamentally a problem of basic arithmetic, and we need to confront the math of the problem.

The President has proposed that, in confronting it, that people who are 55 or older not be affected, their benefits not be taken away. That is a deep commitment the President has made. He has also said that, for younger people, they should have an opportunity to do better than they would under the promises that Social Secu-

rity has made but can't keep. Can't keep because they are not—the system is not sustainable. That is why these personal accounts are so important. Through the personal accounts, younger people have an opportunity to invest and build a nest egg to use what Albert Einstein called the most powerful force in the universe to their advantage, the power of compounding. A 20-year old, a 25-year old who puts away some of their payroll taxes into these accounts can count on a much better retirement than would otherwise be the case under Social Security. I would urge you to move forward on that critical initiative. So, Mr. Chairman, I am delighted to be here; and I look forward to trying to address the questions that the Committee will have for me.

[The prepared statement of Mr. Snow follows:]

Statement of The Honorable John W. Snow, Secretary, U.S. Department of the Treasury

Good morning and thank you Chairman Thomas and Ranking Member Rangel for having me here today to discuss the President's budget. I think you'll find that it exhibits a dedication to fiscal discipline, transparency, and economic growth.

By focusing on priorities and looking for savings in every agency, across the board, the President's administration has come up with a budget that we believe is fair while also holding the government accountable. As the President announced in his State of the Union Address last week, this budget adheres to the principle of "Taxpayer dollars must be spent wisely, or not at all."

It holds the growth of discretionary spending to just 2.1 percent, below the rate of inflation. Non-discretionary spending in this budget falls by nearly one percent, the tightest such restraint proposed since the Reagan administration.

This administration appreciates that cutting taxes and exercising fiscal discipline must go hand in hand. We appreciate that this is the people's money that we are dealing with, and that we work for the taxpayers.

That is why we are committed to making the President's pro-growth tax cuts permanent and building on our strengthened economic fundamentals as we submit to you a budget that will increase the efficacy of our government programs without over-spending the taxpayers' money.

Over the weekend, the finance ministers of the G7 met—the U.S. was represented by Treasury Undersecretary for International Affairs John Taylor so that I could recover from a bad cold—and they discussed the importance of promoting and achieving economic growth in our countries, as well as keeping our respective financial houses in order. These two issues are inextricably linked.

The way that we, as the executives of the Federal Government, manage the taxpayers' money sends a message to the people of America as well as to our trading partners and investors around the globe. When we control our spending, we are showing our citizens and the world that fiscal discipline is a priority on par with our policies that promote economic growth.

I'll talk more about fiscal discipline in a moment, but I'd like to start with a look at what we have recently achieved through pro-growth economic policies.

Well-timed tax cuts, combined with sound monetary policy set by the Federal Reserve Board, have resulted in very good economic growth and, most importantly, continual job creation. The economy has created over 2.7 million jobs since May of 2003. And while job growth can never be fast enough for those looking for work, the steady pace of job creation has been an unmistakable sign of an economy that has recovered from very tough times, and is now expanding.

Whenever I speak with my counterparts in the G7, I am reminded that the American economy is the envy of the world. Our recovery and growth, our successful dedication to entrepreneurship—all these things are admired, and increasingly emulated, by our G7 partners.

Is it any wonder that they want to learn the secret to our economic resiliency? A quick look at the facts reveals much to be envied: GDP growth for 2004 was 4.4 percent. Our economy has posted steady job gains for twenty straight months. The unemployment rate is down to 5.2 percent—lower than the average rate of the 1970s, 1980s and 1990s. After-tax income is up by over ten percent since the end of 2000 and household wealth is at an all-time high. Inflation, interest rates, and mortgage rates remain at low levels. Homeownership rates are at record highs.

Tax cuts can be hard on budgets and deficits in the short term, but if the tax cuts are geared toward improving incentives the long-term benefits can far outweigh the short-term discomfort, and this fact has been well illustrated by these outstanding economic results.

I point to this record because it is so important that we continue on a pro-growth path. Continued economic growth is needed, and will be needed, to continue to improve our standard of living and until every worker in America who is still looking for a job can find one.

For example, we've got to make the President's growth-enhancing tax cuts permanent—and that is included in this budget. The President's Panel on Tax Reform was also created with economic growth in mind. It is a group of some of the best minds in our country, and they'll be looking critically at the entire existing code and coming up with proposals that would make it fairer, less complex, and more pro-growth.

While the Panel is working on that historic task, our efforts to grow the American economy will continue in many other areas—I am particularly interested in legislation that will reduce the burden of frivolous lawsuits on our economy—and this budget is part of the Administration's overall pro-growth policy agenda.

As I already mentioned, economic growth is good for our country for the jobs it creates and the prosperity it spreads. But it is also, importantly, part of a winning strategy on deficit reduction—one of the top priorities of this budget—because economic growth increases Treasury receipts.

Treasury receipts are rising—in the second half of calendar 2004, individual income tax revenue is up 10.5 percent versus the same period in 2003—and will rise, as long as we have economic growth. That must be accompanied, as I emphasized earlier, by strict fiscal discipline. That is why the President's budget proposes real savings. I know it will have its critics as a result, but its frugality is essential.

Let me be very clear on this: we have deficits and they are unwelcome. But we are not under-taxed and higher taxes will not be the solution to reducing deficits. Fiscal discipline, combined with economic growth, is the correct path.

Using this approach, we are making headway on deficit reduction, and we're on track to halve the deficit by 2009. The deficit is also forecast to fall to 3.0 percent of GDP in 2006 and to 1.5 percent by 2009, well below the 40year historical average of 2.3 percent of GDP.

The 2004 deficit came in at 3.6 percent of GDP—nearly a full percentage point lower than had been projected. And the 2005 deficit is projected to show another decline.

While we are pleased with this progress, we recognize that more needs to be done. We need to make the tough choices on spending and stand steadfast in our commitment to continuing economic growth in order to see that deficit whittled down.

We also need to look at our long-term deficit situation. I spoke earlier about transparency, specifically the honesty of this budget, which deals openly with the needs of the times in which we live, from the war on terror to the need for continuing growth.

In the interest of honesty and transparency, I encourage all of us to look at, and deal with, the $10.4 trillion deficit facing our children and grandchildren in the form of an unsustainable Social Security program

The program is an important institution, a sacred trust, and it well for the times in which it was designed. It is, however, doomed by our country's demographics and in need of wise and effective reform.

The arithmetic is simple. As people have begun to live longer and have fewer children, the ratio of workers paying into the system and retirees taking benefits out has dwindled dramatically. We had 16 workers paying into a system for every one beneficiary in the 1950s, and today we have just three workers for every beneficiary. That ratio will drop to two-to-one by the time today's young workers retire.

We all must agree that this demographic reality exists, that this problem exists. Social Security *is secure* for today's retirees and for those nearing retirement but it is offering empty promises to future generations.

It is the future of the program that President Bush is concerned about, and it is the future of the program that we must address, this year, here on Capitol Hill. I echo the President's State of the Union Address in saying that we must join together to strengthen and save Social Security.

We can, and should, do this without increasing payroll taxes. The level of increases that would be necessary, if we maintain the status quo, would have a terrible impact on our economy. It would negatively impact economic growth; jobs would be lost. We don't have to go that way.

We can, and should, reform the system in a way that encourages younger generations of workers to build a nest egg that they own and control and can pass on to their loved ones.

Saving Social Security is an undertaking of historic proportions. We have hard work ahead of us as we strive for consensus in the name of younger generations.

We also have hard work ahead of us when it comes to strengthening the fundamentals of our economy: deficit reduction, good fiscal policy, energy policy, lawsuit abuse reform, and encouraging savings.

I appreciate that this Administration has an ambitious agenda . . . but it is a good one, worth the work it will take to move forward, together, on it.

Let's start by passing this responsible, pro-growth budget.

Thank you for having me here today; I'm pleased to take your questions now.

Chairman THOMAS. Thank you very much.

The Chair would indicate that, given the time constraints and the number of Members that we have on the Committee, that the Chair will place himself under time constraint and would urge all Members to stay within the 5-minute timeframe. That doesn't mean perfecting the art of the 5-minute question and then assuming that the Secretary will have time to answer beyond the 5 minutes. If a question does consume a major portion of time and the Secretary's short response doesn't seem satisfactory, I have indicated to the Secretary and his staff that they should anticipate answering your questions in writing. Mr. Secretary, it is almost ironic that you are meeting here in this particular room to discuss Social Security. If you will notice, we have recently remodeled the room. We went through five layers of paint to get to the original colors which were placed on those walls about the same time that the Committee was considering the Social Security Act. It is also rather ironic that there are 41 Members of the Ways and Means Committee, which means, in the graphic example that you just gave, if you were the retiree at the time these walls received their first fresh coat of paint, the entire Committee would be paying into the Social Security fund to support you.

Today, it is about three Members. If I were to select randomly three from the Committee, I might choose myself, the gentleman from New York, Mr. Rangel, and the gentleman from Illinois, Mr. Emanuel. If we were to discuss the issue that you just outlined, you would currently have two noes and one yes, in part because the minority leadership decided to impose a litmus test for Membership on this Committee——

Mr. RANGEL. Point of personal privilege.

Chairman THOMAS. I didn't mention anyone.

Mr. RANGEL. Okay. Go ahead.

Chairman THOMAS. Thank you—and that this Committee hopefully is atypical of the Members in terms of their need to respond to the problem that you outlined. In fact, I think you will find that very few, if any, of the Members to my left would be able to agree that it is a problem. So, you need to appreciate the job in front of us, and that is not only are they not going to be supportive of your answer to the problem, they are going to argue—I hope not—that there isn't even a problem. So, I applaud the President personally going out and using the power of the Presidency to focus on an issue that I believe is a real problem. At one time, the entire Committee supported you, and now we are down to three, and we will be down to two shortly. But that if in fact they don't believe that the President's approach to the problem is the most effective way

to deal with the problem, first of all, I assume they have to admit that there is a problem, that they would be willing to engage an examination of alternatives which might address the problem. The Chair in his opening comments stressed that we were going to be looking at retirement in a broader context. Just as even during FDR's Presidency when they addressed the question of income support for seniors, Social Security was seen as a part of the solution, we are going to be looking at other parts that are 21st century and necessary for today's seniors in the significant profile.

I want to urge the Secretary to understand that the argument of whether or not there is a problem is before the Committee, and solutions to that problem. I want to underscore that I want to thank the President for his presentation of the problem and the fact that he has offered a solution to that problem. Mr. Secretary.

Mr. SNOW. Thank you very much, Mr. Chairman. I hear you. I know what you are saying. We are in the phase of this effort—I think it is an historic effort—to secure and strengthen Social Security, which has been one of the great hallmarks of our country for a long time. The fundamental fact, and I think it is undeniable, is that the system as currently constituted isn't sustainable. Now that is not the President's view. That is the view of the Actuary of the Social Security Administration, the nonpartisan Actuary. That is the view of the CBO. It is the view of the GAO, is the view of any number of commissions that have been asked to look at the facts. I think the facts tell the story. The President is, as you said so well, open to a real dialog on finding the answers. But, as Senator Moynihan famously said when he opened the chairmanship of a Committee some years ago, we have Republicans and Democrats here, we have Independents, we have liberals, we have conservatives, we have Libertarians. Before we address the issues before the commission, can I ask that we put aside our partisan views and get the facts and, after we get the facts, approach it with our political views in mind? I think that is critical to this debate, Mr. Chairman.

Chairman THOMAS. Thank you, Mr. Secretary. The gentleman from New York wish to inquire.

Mr. RANGEL. Mr. Secretary, we don't have any debate, because we don't know when we expect to get the President's proposal. Can you enlighten me on what timeframe we are going to get a proposal from the President on Social Security?

Mr. SNOW. The President in the State of the Union message——

Mr. RANGEL. Mr. Secretary, time is such a big problem that this guy has me under a 5-minute rule. Can you tell me whether or not you know? Any guess?

Mr. SNOW. The President outlined the proposal for personal accounts. He also cited four or five, five or six options that he——

Mr. RANGEL. That is enough. So, we will be getting recommendations. Now, besides dead Democrats, do you know of any alive Democrat that is working with the President on this, with all due respect to Pat Moynihan.

Mr. SNOW. I think——

Mr. RANGEL. Just one. I don't care. Not even on the Committee. Anyone on Commerce or anything. Because you are the one talking about bipartisanship. The Chairman said the problem is on this

side. So, give me the name of anybody that is alive, that has been elected to the Congress, that is working with the President as he gives his outline for where we go from here. Anybody.

Mr. SNOW. Well, I thought Congressman Stenholm showed a lot of openness on the issue when he——

Mr. RANGEL. But he is not here with us. You said anybody alive I thought. He is still alive.

Chairman THOMAS. He is half-way there. He is still alive.

Mr. RANGEL. Now, the President said in his State of the Union, by the year 2042 the entire Social Security system would be exhausted and bankrupt. You being the trustee and following these things, do you agree with the President?

Mr. SNOW. Yes, I agree that the system goes bankrupt——

Mr. RANGEL. Now why do you think the Social Security system would go bankrupt in 2042?

Mr. SNOW. Well, for the same reason that a company that becomes insolvent files for Chapter 11. The in-flow of revenues isn't adequate to meet the obligation. That is the definition of bankruptcy.

Mr. RANGEL. Okay, then. Would you say that the incoming revenues that we receive in the United States of America does not meet the amount of money that we are spending today?

Mr. SNOW. Do we have a deficit, are you saying?

Mr. RANGEL. No, I am asking the same thing that you said about why we would be bankrupt, is that are we spending more than we are taking in now in the United States of America? The next question will be, so that we can maintain this friendship, is the United States of America, the leader of the free world and the most exciting economy that you can discover, are we bankrupt?

Mr. SNOW. Far from it. We are the strongest economy in the world. It is because we can meet our obligations. We are able to meet our obligations.

Mr. RANGEL. Tell me the difference, for purpose of education, the difference between the bonds that we have in the Social Security Trust Fund and the bonds that you are so confident are going to get us through this deficit that we are going through? What is the difference? Why is the Social Security Trust Fund bankrupt and the United States is not bankrupt?

Mr. SNOW. Well, the IOUs, the bonds in the Social Security Trust Fund, are just like the bonds that are issued and held by many, many Americans and non-Americans all across the world.

Mr. RANGEL. Including the Communist Chinese.

Mr. SNOW. They are backed by the full faith and credit of the United States. The problem is that, in 2042, that surplus in the Social Security Trust Fund represented by those bonds is exhausted.

Mr. RANGEL. Why is it exhausted? Because we have taken the money out of it. If we put all of the money that we had, as President Clinton was trying to do, we would not have this problem. So, right now, there is more money being paid into the Social Security Trust Fund than we are paying out. What happens to the rest of that money, Mr. Secretary?

Mr. SNOW. Well, the money is recognized as an obligation of the United States, with every penny that has been paid in pledged to be paid back to the Social Security retirees.

Mr. RANGEL. That is my point. Now what is the difference between the bonds that we promise the Chinese that we are going to pay back and the bonds that we promise the future Social Security retirees we are going to pay back? Is there a difference between the bonds that make Social Security bankrupt and not our great Nation?

Mr. SNOW. The distinction is this, Congressman. All bonds, all paper issued by the United States is backed by the full faith and credit—the Social Security system, though, in 2042 reaches the first year in which it is not able to fulfill its obligations, its promises. That is the definition of not being sustainable. That is the definition of bankruptcy.

Mr. RANGEL. Okay. Could you tell me in writing why we cannot fulfill our promise to Social Security retirees but yet we can fulfill our promise to Communist China?

Mr. SNOW. We are talking very different things there. I will be happy to elaborate on why they are so different.

Chairman THOMAS. I will indicate to any Member whose interest is piqued by a written response to a question that may be asked—pretty obviously, if it were presented here, it would be on the public record, and any Member can have access to the written answers provided to questions in open session. We will make those available to all Members.

Mr. RANGEL. That is great.

Chairman THOMAS. Does the gentleman from Florida, Mr. Shaw, wish to inquire?

Mr. SHAW. I sure do. Mr. Secretary, it is a pleasure to have you back in front of this Committee and have your good words with regard to the future of Social Security. As a grandfather of 14, soon to be 15, I am very concerned about their future. In fact, I am more concerned about their future than I am the 2006 election, and I think everybody here should be. I would like to bring up a couple of questions, following up on Mr. Rangel. The gentleman from New York asked you how many Democrats you are working with. I heard very clearly in the President's State of the Union address, I heard him reach out for any ideas, any good ideas that would be considered. How many good ideas have you heard from Democrats in the House of Representatives or the Senate?

Mr. SNOW. Congressman——

Mr. SHAW. Just name one, Mr. Secretary.

Mr. SNOW. Well, I thought Allen Boyd, your fellow Floridian, apparently has offered some good thoughts on it. But we are still hopeful, let me put it that way. We still are hopeful that this can be approached in a bipartisan way. That is the way that the President wants to approach it. As he said in the State of the Union speech, and you alluded to it, our children's retirement security is more important than partisan politics. I think we need to rise above partisan politics on this one.

Mr. SHAW. It is interesting to note that a Democrat-leaning PAC has already gone after Mr. Boyd for speaking up, which I found despicable, and I am very concerned about that. Now let's go talking about the solvency of the program. You said it is going to go bankrupt in 2042, but in which year are we not going to have enough money coming in, actual cash—I am talking about cash

flow—to pay the dividends, and we are going to have to go into the trust fund and start cashing those bonds?

Mr. SNOW. Congressman, the system becomes negative on a cash-flow basis—that is annual in-flow and annual out-flow—in 2018.

Mr. SHAW. So, the Congress is going to have to get the money to pay off the bonds to pay beneficiaries after 2018. What is the cash shortfall between 2018 and 2042?

Mr. SNOW. The cash shortfall is very, very—it is in the trillions of dollars.

Mr. SHAW. I think it is somewhere around $2 and a half trillion.

Mr. SNOW. That is correct.

Mr. SHAW. If I am correct on my figures——

Mr. SNOW. That is right. I can give you that number precisely in a second.

Mr. SHAW. I think that would be very, very helpful, because this Congress is going to have to come up with approximately $2 and a half trillion, beginning in 2018 to pay the benefits. Now let's continue to talk about cash flow, because this is terribly important, because that is the way our budget goes here. Now I have been told and I understand that, in terms of today's dollars, that over the next 75 years—and we must look at a pension plan over the full term of the life of today's workers or the young children that will be coming into the work force—that there is a cash shortage, in terms of today's dollars, of $10.3 trillion. Or if we actually see what is the actual cash flow, the out-go, I have been told that it is $26 trillion. Am I correct on those figures, Mr. Secretary?

Mr. SNOW. Yes, you are, according to the Social Security Actuary, Congressman. It is $10.4 trillion present value going out, and the 26 is the nominal.

Mr. SHAW. I also understand that, according to the actuaries, that the longer we wait, it is going to cost us $600 billion a year. Is that a correct figure?

Mr. SNOW. Yes, indeed it is.

Mr. SHAW. Mr. Secretary, we are faced with a dilemma at this particular point. This is a historic occasion. I can tell you, from just looking at my kids and my grandkids, they will turn our pictures to the wall if this Congress doesn't act to do something. They are going to be required to pay into a system that we know will not be adequate upon their retirement to pay full benefits. The Congress is then going to be faced with a dilemma of either increasing the tax tremendously on the backs of the working people or cutting benefits, and that is something we do not have to face if we were to act now and act responsibly. I think there is still hope. I will repeat what you said: Hope is still there that we will get good bipartisan support. Because I think this is terribly important. This is much more important than any of our reelections. It is about our children and our grandchildren. Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentleman. Does the gentlewoman from Connecticut wish to inquire?

Mrs. JOHNSON OF CONNECTICUT. Thank you very much, Mr. Chairman; and welcome, Mr. Snow. Given the rules, I want you to know I have two questions I want you to comment on. So, I will make them brief and hope that you will make your answers brief

so that we can get through both of them. First of all, I was very disappointed in the President's budget this year. He did not include the $25 billion for long-term care that he included in last year's budget. He did, however, continue to include support for the reform of Medicaid. Now you can't really reform Medicaid unless we begin to build an alternate source of funding for long-term care. While we are doing Social Security reform, we really ought to be looking at how do we help people protect themselves from literally being wiped out by long-term care costs. So, if you have any comment on the willingness of the Administration to really look at the comprehensive approach to long-term care reform, which does include the Tax Code, I would be interested in those comments.

Mr. SNOW. Well, the issue of the Code and health care is a matter that will be addressed, Congresswoman, by the panel that the Chairman alluded to. Obviously, the Code has a heavy bearing on the health care delivery system; and in my conversations with panel Members, it is clear that those issues—in fact, all of the great issues of our time in terms of the Code—will be on the table. So, I fully anticipate the issues you are talking about, the health care tax credit and others, being addressed by the panel.

Mrs. JOHNSON OF CONNECTICUT. I think that is relinquishing an extraordinary amount of responsibility and creativity to a nonelected group, but I will be interested in what they do.

My second concern was to, first of all, compliment you on taking up the issue of currency manipulation with China. But I am very concerned that China continues to peg its currency to the value of the Dollar. It is giving its businessmen a tremendous advantage over our businessmen, and between the currency peg and their cornering of the steel market and driving the price of steel up, we are really facing some very great challenges to our industrial base and the ability of America to manufacture the quantity and the diversity of products necessary to sustain a strong defense industrial base. So, I think this issue of currency manipulation is big, and it is particularly big with China, because China couples it with an inability to enforce its obligations under the intellectual property protection provisions of the World Trade Organization (WTO).

Mr. SNOW. The whole issue of the Chinese peg is one that we have taken very, very seriously. I have engaged all of the senior political and economic leadership of the country on the question. We made it clear to them that they need to move to a flexible exchange rate, to let the market set the currency, rather than do it through administrative fiat. We have received from the political leadership of the country and economic leadership a positive response on that. They have indicated that they agree that they need to move to flexibility, but they can't move to it until they modernize the financial infrastructure of the country. Of course, they have had huge problems with nonperforming loans, with the absence of a market-based financial system, with the absence of the sort of institutions, of the financial marketplace that we know and rely on in all developed countries.

They are making great progress, Congresswoman, let me say that. We are not satisfied, but they are making great progress. I would cite the fact that recently they entered into an agreement with the Chicago Mercantile Exchange to put in place a forward

hedge on their currency, a derivatives market on their currency. Now there is no reason to hedge a currency that is pegged. So, I am encouraged. They know where we are coming from. They know that we are intent on seeing them move there, and I think they understand it is in their interest to do so as well. I am very sympathetic to your question. On the long-term health care, we are not going to abdicate the ultimate responsibility to a nonelected body. They will report back to us, of course, and the President ultimately will make the decision. I hope we will have legislation proposed to this Committee and to the Congress shortly after the Committee reports, which is this summer.

Chairman THOMAS. Does the gentleman from California, Mr. Stark, wish to inquire?

Mr. STARK. Thank you, Mr. Chairman. Mr. Chairman, is it proper—I have some questions on health care, which is a new topic for the Secretary, that I would like to submit them in writing and see if he would respond to them.

Chairman THOMAS. Without objection. To the degree the Secretary, in the capacity of Secretary of the Treasury, couldn't be as responsive as we would like, I assume you would like him to try to get the Administration to respond to your question, not having seen the questions?

Mr. STARK. Thank you, Mr. Chairman.

Chairman THOMAS. Without objection.

Mr. STARK. Thank you, Mr. Secretary, for being with us here today. I just wanted to reaffirm something with you. I have a problem at home. My son will be 10 shortly, and he received from his grandparents a thousand-dollar savings bond, which will mature shortly after his 10th birthday. With all of this discussion, the Budget Committee—the majority of the Budget Committee spokesmen suggested that the trust fund was going bankrupt because it is just IOUs from the government. I was trying to explain to my son that what he has is an IOU from the government, and can I go home and tell him that the Secretary of the Treasury assures him that that thousand-dollar U.S. savings bond is gilt-edged and will be honored by the United States and the full faith and credit of the United States?

Mr. SNOW. Yes. Yes, you can. Those are full faith and credit obligations.

Mr. STARK. Is it not true then that all of the assets in the Social Security Trust Fund are as gilt-edged and secure as my son's U.S. savings bond?

Mr. SNOW. As I said to Congressman Rangel, they are all backed by the full faith and credit of the United States Government. There has never been a default.

Mr. STARK. There has been some question raised here. I thank you for that answer. Now you have argued that Social Security, or the Administration has, is unsustainable. But the budget you give us extends the President's tax cuts and makes them permanent. The total cost of those tax cuts is three to five times more than the cost of shoring up Social Security without any benefit cuts. How can one policy be unsustainable and the other not?

Mr. SNOW. Congressman, the budget we have submitted, which includes making the tax cuts permanent, does so within the Presi-

dent's budget reduction parameters. As you look at the out-years on that, on the budget we have submitted, you will see that it comes down, I think, to 1.7 percent of GDP, which is low by historical standards. We can incorporate and will incorporate the tax permanence in the budget numbers you see. There is total transparency there. While incorporating them into the budget we also achieve the President's objectives of reducing the deficit——

Mr. STARK. I understand what you have said in the budget, Mr. Secretary. But when you have got tax cuts for the top 1 percent of the households, with average incomes over a million bucks, and they exceed—those tax cuts alone exceed the cost of shoring up Social Security, without any benefit cuts, what are the President's priorities? Tax cuts for those of us who are wealthy, or repaying the trust fund for those who have contributed throughout their working lifetime? I want to know what your priorities are.

Mr. SNOW. Congressman, our priorities, I want to underscore, are to keep the American economy strong and prosperous, growing and creating jobs. Because of those tax cuts, as the Chairman said, there are some 2.7 million additional Americans working today. I think it is important we keep the economy strong and capable of creating jobs. That is where the tax cuts are so important. That is why sustaining the tax cuts is so important.

Mr. STARK. So, you think that giving all of that money to 1 percent of the households, those who make over a million dollars, is what is going to drive our economy, rather than keeping senior citizens out of poverty and providing them decent health care. That is your opinion as to how we will have a better society. Is that correct?

Mr. SNOW. Congressman, I don't see this at all as an either/or. I think we need the tax cuts made permanent, because that allows the American economy to grow and expand and create jobs.

Mr. STARK. But it is that. Social Security, it is either/or, Mr. Secretary.

Mr. SNOW. Well, no, Congressman. There are ways to fix Social Security as laid out by many people, including the President's Commission on Social Security. There are ways to fix Social Security in ways that are fair to future generations and put the system on a sustainable basis and secure and save it for the future. We can do that.

Mr. STARK. Your plan is to cut benefits for Social Security, Mr. Secretary, and not—and cut taxes for the rich. That doesn't seem to me to be very fair. That is all, my concern. I just wondered how that fits in with your priorities. Is it moral? Is that a good thing to do?

Mr. SNOW. Congressman, it is critically important that we keep the economy on the right path. It is critically important that people who are looking for work find work. I think we have an obligation to people who are looking for jobs to give them the ability to find a job. Lower tax cuts clearly make that possible. So, lower tax cuts are critical. At the same time, we need to address Social Security, and we can, and there are ways to do it that are fair and equitable.

Mr. STARK. Mr. Chairman, I think I have just been given a snow job. That is all.

Chairman THOMAS. I can't believe you would be that stark in your comment.

Does the gentleman from California, Mr. Herger, wish to inquire?

Mr. HERGER. Thank you, Mr. Chairman.

Mr. Snow, I want to thank you for appearing before this Committee; and I particularly want to thank President Bush for the courage that he has shown in stepping forward on addressing this incredibly crucial issue affecting our children and our grandchildren. If I understood you correctly, the major part of the essence of the problem is that, when Social Security began back in 1935, we had 41 workers paying in for every 1 receiving it. Today, we are down to a little more than 3 paying in for every 1 receiving it, and that drops even lower than that. That very soon we will actually—we can see where, when the baby boomers begin retiring in 2008, we begin having a very major problem. It is—being aware of that, I am amazed that there are so many on the other side of the aisle, my good Democrat friends, who don't even see a problem here, who think that everything, evidently, is just fine; and I want to thank you and the President for stepping forward.

Now the President has been accused of proposing to cut Social Security benefits to pay for a, quote, risky scheme. However, the personal accounts proposed and detailed by the President during his State of the Union address is modeled on the Thrift Savings Plan (TSP) enjoyed by all Members of Congress and all U.S. Federal employees which enables them to invest a portion of their wages in a government bond fund, corporate bond index fund and equity index fund at a very low administrative cost. Would you review the investment options and administration of the proposal accounts President Bush proposes and steps that would be taken to protect workers' investments?

Mr. SNOW. Yes, Congressman, thank you. Thank you very much.

The idea that is being put forward here by the Administration, by the President, is simply this: The system can't pay the benefits that it has promised. We know that. That is what those numbers you just went through tell us.

In 2042, the people who seek to get their benefits that year, if we don't do anything in the interim, will face a very sizable reduction in the benefits, because the system can't pay the benefits. That is what the bankruptcy is all about. It has nothing to do with the IOUs, it has everything to do with the amount of revenue flowing into the system. The President has said, given that fact, let's give people a chance to do better than they would under the system that can't fulfill those promises. How do you do that? Well, you do that by allowing people to invest and build a nest egg over a long working life, applying the laws of compounding, the powerful laws of compounding. At the same time, though, we recognize that these have to be very safe investment vehicles. This has to be a secure investment. This is not going to the roulette wheels. It isn't going to the race track. These are safe and secure investments.

The investment vehicle, as you point out, will be very much patterned on the TSP available to government employees and Members of Congress. It will have a limited number of options, all secure, all broad-based. Nobody will be allowed to invest in hedge

funds or derivatives or put and call options. There will be treasuries—I think there will be treasuries that are inflation protected, all in funds, funds of treasuries, funds of safe corporate bonds, funds of large cap stocks and funds of, I think, foreign stocks and funds of mid-cap stocks. But funds. So, that the individual won't be buying the shares of the ABC company. He will be buying a fund of shares of companies. So, the risks get highly diversified. You also asked about administrative expense. These will be administered in a way that minimizes administrative expenses. I think the estimate is 30 basis points of administrative expense, which is very, very low. The whole point here is to give people a chance to do better than they otherwise would do with promises that can't be kept.

Mr. HERGER. Thank you very much, Mr. Secretary.

Chairman THOMAS. Does the gentleman from Louisiana, the Chairman of the Social Security Subcommittee, wish to inquire?

Mr. MCCRERY. Thank you.

Mr. Snow, welcome. Nice to see you again.

Mr. Herger touched on some who criticized the President's proposal for personal accounts as a risky scheme. Here is an ad, a recent ad, from the American Association of Retired Persons (AARP), saying if we wanted to gamble we will play the slots. You may have read or heard, Mr. Secretary, that I recently spoke to the Board of Directors from AARP. If you missed it, I will send you some copies of the press releases.

Mr. SNOW. I actually read the real—what you really said, not what was reported.

Mr. MCCRERY. Glad you got that. Well, actually I had a very pleasant, constructive discussion with the Board of Directors of the AARP about Social Security; and at that meeting I congratulated them on winning the first round. Because, in fact, these ads did some good. The President obviously listened to the AARP and in his proposal that he made, in his State of the Union address, in fact, as Mr. Herger pointed out, followed the advice of the AARP and constructs a system for investment of personal accounts in a very safe manner, wouldn't you say?

Mr. SNOW. Absolutely.

Mr. MCCRERY. Based on the history of the TSP, which is very similar to the President's proposal, I would say it is a very safe bet, wouldn't you?

Mr. SNOW. Yes. Yes, I would. It is a safe bet, but it is a bet that will allow the workers who put the money into those accounts to sustain much higher rates of return than they would through the traditional Social Security system.

Mr. MCCRERY. Exactly. Which helps us in the long run to save Social Security and to prevent it from going bankrupt in the traditional sense of that definition. Now, speaking of that, I just want to underscore you gave the right answer, Mr. Secretary, to Mr. Rangel's question about the bonds in the trust fund. Indeed, they are as good as gold. They are backed by the full faith and credit of the U.S. Government, safest investment in the world. They are going to be paid. No one questions that. But the point is, in 2042, there will be no more bonds in the trust fund, is that correct?

Mr. SNOW. That is precisely it. The surplus is exhausted.

Mr. MCCRERY. There are no more bonds in the trust fund, there are no more bonds to redeem, there are no more IOUs. At that point, revenues, if we don't change anything, revenues coming in through the payroll tax will be sufficient to pay only about 72, 73 percent of promised benefits. Is that correct?

Mr. SNOW. That is precisely the point. In 2042 the trust fund can only pay out, in accordance with the revenues that it brings in, all of the bonds; all of the IOUs have been paid off, there is no more stash of IOUs or bonds that the Social Security Administration has that they can present to the Treasury.

Mr. MCCRERY. Exactly.

Mr. SNOW. So, the Social Security system is entirely dependent on its inflow, and its inflow is only some 72 percent of its then-projected outflow. So, it has to reduce.

Mr. MCCRERY. So, by anybody's definition, even if you are looking at Social Security in isolation, that is a problem. That is a big problem. But we are talking today about the President's budget. So, let us look at Social Security not in isolation but in terms of the overall budget of the United States and where we are headed down the road. I am looking at a Congressional Budget Office (CBO) document that estimates that if no changes are made, Mr. Secretary, in Social Security, Medicare, Medicaid, just those three programs—all of which will soon suffer from the same malady, the retirement of the baby boomers, my generation—if those three programs stay the same, no changes, Mr. Secretary, CBO estimates that in the year 2050 they will represent 27.4 percent of GDP.

Mr. Secretary, do you know what the total budget of the United States today represents? Total budget, defense, everything.

Mr. SNOW. Yes. It is——

Mr. MCCRERY. Last year was 19.8 percent of GDP. Wasn't it?

Mr. SNOW. The unfortunate thing is that these mandatory programs are taking a larger and larger share of that total budget.

Mr. MCCRERY. Mr. Secretary, if those changes are made, they won't take a larger share, they will take the whole budget, plus some.

Mr. SNOW. Well, that is the course we are on.

Mr. MCCRERY. So, if you don't look at Social Security in isolation, then you have got—the sky will be falling soon, Mr. Stark, if we don't do something. That is the point. I think it is an irrefutable point, and I commend the Secretary and the President for taking note of that and urging responsible Members of Congress to do something about the problem before it is too late, before the solutions are too drastic.

Thank you, Mr. Secretary.

Chairman THOMAS. I could tell my colleague, if it had been the gentleman from California, he would have used the analogy of the Earth opening up. Those of us from California are familiar with that. I believe it was the gentleman from Washington who hasn't seen the sky for a long time, and they had thought it had fallen some time ago.

Mr. MCCRERY. I apologize, the gentleman from California. The gentleman from Washington often sounds like the gentleman from California, so I got them confused. So, I apologize.

Chairman THOMAS. Does the gentleman from Michigan, the Ranking Member on the Social Security Subcommittee, wish to inquire?

Mr. LEVIN. The skies are always clear in Michigan. So.

Indeed, Mr. Secretary, we are very happy to let the facts tell the story. One fact is, in 1983 when there was a problem, the Democrats provided two-thirds of the votes to address it, two-thirds in the House. This notion that we don't understand there is a shortfall is a pure canard. The shortfall, you used 2042; the CBO says 2052, 72, 73 percent of the benefits would be paid. I also ask you to look at the dependency ratios. You mentioned about 16 workers, and so forth. Look at the dependency ratio, which for the baby boomers will be about the same when they retire as when they were kids. I think you are trying to create a notion of bankruptcy when that really is not an accurate description. So, let me ask you, in the White House briefing last Thursday, it was acknowledged that the private accounts would not do anything to address the shortfall; do you agree? If you could give me a quick answer.

Mr. SNOW. Yes, I will. No, I think they are an integral part of any resolution.

Mr. LEVIN. No, but the private accounts by themselves as described by the President, would that do to anything to relate to the shortfall? Will it reduce the shortfall?

Mr. SNOW. It is part of any——

Mr. LEVIN. No, it by itself; will private accounts address the shortfall, yes or no? The White House said no on Thursday.

Mr. SNOW. I didn't see that.

Mr. LEVIN. You didn't see the briefing of the White House?

Mr. SNOW. No, I didn't see the comment that you are referring to. The three plans that were produced by the Commission all had the Social Security system being fixed in the sense that it was permanently sustainable and they all had the private accounts.

Mr. LEVIN. Okay. Let me——

Mr. SNOW. Personal accounts is an integral part of that solution. So, I view the personal accounts that give people a chance to build this nest egg and do better than they otherwise would do as an integral part of any solution.

Mr. LEVIN. Good. I am glad you mentioned the three, because the accounts, the private accounts, do nothing by themselves. I could quote what the White House said. You then go over to the three plans. The plan the President says is a good blueprint, does it have benefit cuts in it? Yes or no?

Mr. SNOW. I think both plan two and plan three do have—change the index, which has the effect of slowing the growth rate.

Mr. LEVIN. Is that a cut in benefits from the present structure? Yes or no?

Mr. SNOW. Well, it slows the rate of growth of future benefits.

Mr. LEVIN. You know, one of the problems is this White House won't give a straight answer. The answer is it reduces the benefits for younger workers over 40 percent, plan two, which the President called a good blueprint. I think you ought to just say yes when the answer is yes. Now I want a yes or no answer to this. Why isn't the transition cost in the budget? Vice President Cheney said this just a few days ago: The government would have to borrow 754 bil-

lion over the next 10 years, and conceded that the price tag would involve borrowing trillions of dollars more in subsequent decades.

That is right, the Vice President said, trillions more after that. Why isn't the 754 billion in the budget?

Mr. SNOW. The 750 has been acknowledged.

Mr. LEVIN. Why isn't it in the budget?

Mr. SNOW. Well, it is reflected in the budget in 2009 and I think 2010, the last 2 years of the budget, as a two-tenths of 1-percent increase in the ratio of GDP to the deficit. It adds 2 percent to that ratio.

Mr. LEVIN. Two-tenths.

Mr. SNOW. Two-tenths, I am sorry.

Mr. LEVIN. Is 754 in the budget fully?

Mr. SNOW. Yes. It is reflected in the table that shows the ratio of the deficit to GDP.

Mr. LEVIN. But in the budget itself when the numbers are there, is there a number that says Social Security transition costs 754 billion?

Mr. SNOW. Whether it is in the budget, Congressman, I don't know. It is a number we acknowledge as the number going forward for the 10-year period. We acknowledge it. Whether it is formally in the budget or not, I don't know, But we have been transparent.

Mr. LEVIN. Why not?

Mr. SNOW. I don't know. But we are transparent. We are telling you what it is.

Mr. LEVIN. But it is not in the budget.

Chairman THOMAS. The gentleman's time has expired. Does the other gentleman from Michigan, the gentleman Mr. Camp, wish to inquire?

Mr. CAMP. I do, Mr. Chairman. Thank you very much. Thank you, Mr. Secretary, for being here and for your testimony, certainly about the strength of our economy. My question, though, is really about the idea of voluntary personal accounts. In 1983, the Democrat Congress increased the retirement age for Social Security. In your view, is that a benefit reduction or benefit cut?

Mr. SNOW. It would be scored as that, certainly.

Mr. CAMP. All right. Does borrowing—obviously to establish personal accounts in a large sense would require some borrowing in the near term, and add—and that would add to the publicly held debt in the short term. But does borrowing to establish personal accounts have the same economic impact as borrowing to finance other government spending?

Mr. SNOW. No, it is entirely different. Borrowing to finance the personal accounts creates savings in the owners of the personal accounts. It in effect prefunds an obligation. Therefore, unlike traditional borrowing which leads to spending, this is borrowing that leads to savings.

Mr. CAMP. Would that borrowing, then, that leads to savings, as you describe it, which has a better impact certainly on our economy and on individuals as well, would that also allow Congress then to spread the impact of transitioning to a Social Security system that starts paying out more than it brings in, in almost 10 years, would that allow us to spread that impact of transitioning over a longer

period of time, thereby lessening any effect on any single generation of workers?

Mr. SNOW. Yes. That is one of the great merits of the approach is that spreading out across many generations.

Mr. CAMP. So, we would be able to borrow in a way that had some positive effect by increasing savings, and also lessen any impact on any particular generation of workers?

Mr. SNOW. Yes. The borrowing is turned into savings; and as the workers put the money into the accounts, they reduce the future claims on the system by an amount which is in present value terms equivalent to the money they take out.

Mr. CAMP. And also would boost retirement income, which is not something we have talked about.

Mr. SNOW. Well, that is the key to it. The reason that these accounts are so important is they give younger people the chance to have a better retirement than they would in the current system, a system that can't pay the full benefits beginning in 2042, if you rely on the actuary, or 2052 if you rely on CBO.

Mr. CAMP. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentleman. Does the gentleman from Maryland, Mr. Cardin, wish to inquire?

Mr. CARDIN. Thank you, Mr. Chairman. Mr. Chairman, first let me assure you, the Democrats understand the math of Social Security and understand the need to strengthen Social Security, but we do not believe it is in crisis nor do we believe it is heading toward bankruptcy. Mr. Secretary, let me thank you for clarifying the date, 2042, a critical date when there would not be enough assets to pay full benefits in the Social Security system according to the current projections. But let me just remind you that in 1996, the same actuaries made a projection that gave solvency 13 additional years than we have now.

So, my point is that these are very uncertain. The Administration, as I understand it, is very reluctant to do more than 5-year budgeting. I might ask you, when I complete comments, if you could tell me any other program in government that is as well funded for 37 years as Social Security is. I can't think of another major program that is that well funded. Let me also point out that these projections take into consideration the changes that were made in 1979 and 1983 when we recognized the demographic changes of the Nation and created the Social Security Trust Fund to generate a lot more in assets. As I understand it, the current projections of 2042 is based upon a 1.8 percent economic growth, and yet you seem more optimistic that we will exceed that, and that the economic activity is greater than you are saying, and then the solvency dating will be much greater than 2042.

I just mention all that because I don't want to see us rush to get it wrong. I think we have got to get it right, and Democrats believe we should get it right. I think it is a matter of simple math. I think the first thing you could do is help us by carrying out what you said in your opening statement about this budget causing attention to the deficit. I think it would be helpful if you would tell the deficit next year to be not $390 billion under your projected budget but 560 billion, because that is the only budget deficit. Once again,

we are using the Social Security Trust Funds to mask the size of the real deficit. If we really had a lockbox, if we really kept that Social Security Trust Fund for Social Security and invest them wisely, invested them wisely, we would have a much less problem than we have today.

So, I do agree with Mr. Herger; I want people in my district to have the same benefits as a Federal employee or a Member of Congress. I am very privileged to be able to participate in Social Security, to be able to have a good pension plan that my employer helps pay for, and—a TSP or a private retirement plan that I put money in, and it is at risk. But I know that I have, and Americans have on average, a core benefit in Social Security that protects one-third of their income when they retire.

My question to you: If I am under 55, under the President's proposal, and I don't participate in a private retirement plan, as I understand it, my benefits are going to be reduced. I am not going to get one-third of my replacement when I retire. If I am 27 today and retire when I am 65, under the President's proposal, if I don't participate in a private account, my benefits are going to be less. That is guaranteed. I am not going to get one-third of my replacement, on average. Even if I participate, you have got to pay for this somehow. We don't know what is going to happen. There is no guarantee that I am going to be able to get that core benefit. So, my question to you: Aren't we talking about benefit cuts and dramatic benefit cuts for those under 55 and a real question mark to people who are disabled, survivors, and so forth, as to whether they are going to be able to get the same type of protection that they have under current law under the President's proposal?

Mr. SNOW. Congressman, the current system, unless addressed, will result in a major reduction in benefits. That is what lies ahead unless this situation is addressed. When 2042 comes, according to the Social Security actuary, there will be a 27-percent reduction, I think is the number that he uses, in the benefit levels. It will get larger and larger and larger with future generations, because the trust fund can only pay out what it has coming in. Therefore, it seems to me we have an opportunity now to address it and put in place savings accounts for people that will allow them to make up for some of that shortfall and do better than they would under the current system.

Mr. CARDIN. I would just appreciate it if you would get to simple math. It seems to me simple math is, if you want to improve the system, you strengthen it by putting more in, you don't take money out, one-third of the payroll taxes.

Thank you, Mr. Chairman.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Minnesota, Mr. Ramstad, wish to inquire?

Mr. RAMSTAD. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for your important leadership. Certainly the President and the country are well served by your being in this critical position. I want to ask you a question with respect to Social Security reform, if I may. As you know, our country has long financed Europe's social assurance by paying value-added taxes (VATs) on our exports, while European exports to the United States are exempt from VATs. Doesn't it make good economic sense to link Social Security

reform with overall tax reform to find a better method of financing Social Security other than the payroll tax?

Mr. SNOW. Well, Congressman, the whole issue of the tax system is one that we are going to be addressing in a direct and forthright way. Right now we have asked the panel to look at all options for improving the performance of the tax system, including VAT taxes, sales taxes and so on. They are all on the table. I don't want to prejudge where they will come out, but I do know that this is a very able panel with very accomplished people, Chaired by former Senator Connie Mack, former Senator John Breaux, both of whom served in the House. We will be working closely with them. I just don't want to try to foreshadow where they might come out. But that issue is on the table.

Mr. RAMSTAD. So, given the timing of that panel—by the way, my distinguished predecessor and mentor, Bill Frenzel, is also on that panel.

Mr. SNOW. He is indeed.

Mr. RAMSTAD. Doesn't it make sense, given the timing of the panel's recommendations—which I understand the panel was charged with coming up with the recommendations by July 31—doesn't it make sense to defer action on Social Security until we get the tax reform recommendations, and then do Social Security reform within the comprehensive context of tax reform?

Mr. SNOW. No, I don't think so. I think Social Security needs to be addressed. The ideas that come from the panel will be available, by the latest, by July of this year. I would hope that the Congress would continue to move forward with Social Security reform, would look at the options, would help define the nature of the problem. We are having some difficulty right here defining the nature of the problem. I think it is going to take some time to get together on what the nature of the problem is before we get to the fix. But I would not want to see us deflect attention from this critically important issue.

Mr. RAMSTAD. But the Administration isn't necessarily wedded to continuing to finance Social Security with the payroll tax.

Mr. SNOW. Well, the Administration wants to see what the panel comes up with in terms of options. What we are primarily working for is a way to put Social Security on a sustainable basis. There have been any number of efforts to reform Social Security, to fix Social Security in the past, and none of them have put it on a permanently sustainable, financially financial basis. So, that is the real objective here, is to put Social Security on a financially sustainable basis while giving younger people the chance to take advantage of the ability to invest and have a higher rate of return.

Mr. RAMSTAD. I certainly commend that compelling objective, and it is compelling that we act. Let me shift gears quickly to the alternative minimum tax (AMT). As you know, this AMT is staring more and more middle-income taxpayers for whom it was not intended. Now, I know the President has asked Treasury to study the AMT problem and make recommendations for reform. What is the status of that study? Am I correct in assuming that because the study is not yet completed, that is why AMT relief is not included in the budget?

Mr. SNOW. Precisely, Congressman. Precisely. Again, the AMT relief is a matter that has been under review for some time at the Treasury. When we met with the panel chairman and cochairman we asked them to include AMT as one of the issues they review and look at and give us recommendations on. So, the issue is being worked very, very hard. You are right; this is a tax that burdens millions and millions of Americans, it will burden many, many more millions of Americans. It is a duplicative tax, it isn't fair, it isn't growth-oriented, and it isn't simple. The objectives of the President are to make the Code simpler, fairer, and more growth-oriented. The AMT needs to be fixed because it doesn't serve those two objectives.

Mr. RAMSTAD. As one of my accountant friends caught, this really is a ticking time bomb that needs to be dealt with. I appreciate your sense of urgency as far as the dealing with it is concerned.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ramstad follows:]

Opening Statement of The Honorable Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling this important hearing today to review the President's fiscal year 2006 budget proposals.

We are fortunate to have Secretary Snow with us today, who is not only responsible for helping shepherd the many tax proposals outlined in the President's budget, but also the daunting but essential efforts to reform our federal tax system and ensure the solvency of our Social Security system.

With Americans spending some 6 billion hours and $100 billion per year trying to comply with our complex tax system, I applaud the President for working to make the system simpler and fairer for taxpayers and better for jobs and our economy.

I also applaud the President for tackling the problems facing Social Security, which will face $10.4 trillion in unfunded liabilities if we do nothing to save it.

I look forward to working with my colleagues and Secretary Snow, both on the proposals already outlined in the President's budget and the broader issues of tax and Social Security reform.

Again, Mr. Chairman, thank you for convening this important hearing.

Chairman THOMAS. Does the gentleman from Washington, Mr. McDermott, wish to inquire?

Mr. MCDERMOTT. Thank you, Mr. Chairman. Mr. Snow, we have all read your predecessor's book, "The Price of Disloyalty," so we know that we are going to hear the line from the White House, unadulterated. It gets a little Orwellian in this room when we listen to the word "transparency" from the first line in your speech, and you have used it at least 12 times since: We are very transparent, we are very transparent, we are very transparent. I know if, you say something enough, people will start to believe it. It is like Coca-Cola, its advertising. We understand.

But the fact is that this budget that you put before us that you say is a transparent budget has nothing in it for the Iraq War. Now, you don't think that the Iraq War isn't going to cost something. Oh, well we don't know how much it is, is what you are going to say. Well, then you hear about the AMT. The AMT cost $25 billion to extend what was in the last budget last year. You don't even put in the extension, it just drops dead. You know that

there is at least $25 billion that doesn't show in this budget. Then you go to the privatizing or permanent cost of the taxes. You fold it into the baseline. Then you take the privatizing funds and that is not shown at all.

Now, I know you are going to say, well, we haven't written the bill. This process started 25 years ago when Cato put out a resolution, or put out a paper saying how this should be done. The President has been saying it since 1978 that bankruptcy was around the corner. You don't have a bill to lay in front of us. Now, how can you call this a budget that leaves out the privatization cost? How can you call that transparent when you have the war, the AMT, the privatization, sitting there and you know it is going to be costly? What is the deficit really going to be this year?

Mr. SNOW. Well, it is as laid out in the Office of Management and Budget (OMB) document, the President's budget proposal. On each of those issues, let me just make a brief comment. On the war, we have indicated that the supplemental would be a supplemental-

Mr. MCDERMOTT. Does that count in the budget as part of the deficit?

Mr. SNOW. Would be $80 billion. We have been transparent in saying that.

Mr. MCDERMOTT. But does that add to the deficit?

Mr. SNOW. Yes, that is included in the deficit number.

Mr. MCDERMOTT. Okay. In that 500 figure that you just gave?

Mr. SNOW. The effects of that are incorporated in the total deficit number. The AMT is, as I have indicated in response to the previous question, is being looked at and will be addressed by the panel. We don't know how they will address it, so, therefore, we are not including the so-called patch this year. The tax cuts being made permanent are included in the budget window.

Mr. MCDERMOTT. So, we see everything. You are willing to stand behind this deficit number that is in that budget as the one that we are going to finish the year with?

Mr. SNOW. I think it is the best estimate anybody has. It is very similar to the estimate that CBO has.

Mr. MCDERMOTT. Let me ask you a question about the problems with Social Security. You are a trustee; you sit there, and they present you with three options. The trustees always select the lowest option. This is based on a 1.8-percent growth. Now, when was the last year the United States economy grew 1.8 percent?

Mr. SNOW. Congressman, we are looking at 40 years. Remember, we are not dealing with Social Security in 2007 alone, we are dealing with it over the——

Mr. MCDERMOTT. But what was the year that it ever was that low?

Mr. SNOW. Well, that is the Social Security actuary's estimate.

Mr. MCDERMOTT. That is their low estimate. What about their medium estimate? What if we said 3 percent; what would that do to the extension of the Social Security?

Mr. SNOW. Almost nothing.

Mr. MCDERMOTT. Nothing?

Mr. SNOW. Almost nothing. Because the growth in wages translates into growth in benefits and absorbs the effects, so that the obligation of Social Security rises at the same rate, basically.

Mr. MCDERMOTT. So, your testimony is that the growth in wages means absolutely nothing in terms of increasing the longevity of the fund? Is that what you are testifying here?

Mr. SNOW. Not absolutely nothing. It means very little, and over the long term means almost nothing.

Mr. MCDERMOTT. Would you put that in writing? I would like to see that. Show me the 3 percent and the 1.8 percent, and show me how it works out.

Mr. SNOW. I would be delighted. This is mysterious, but it is correct. Social Security is basically a function not of GDP but of demographics.

Chairman THOMAS. That is one of the reasons when you focus on wages versus prices, the multiplier on that basis produces very much the effect the Secretary is talking about. That information on paper will be presented to all the Members.

Mr. MCDERMOTT. Mr. Chairman, could I just ask, are you saying his answer is based on shifting from wages to prices?

Chairman THOMAS. No. I am saying that, under the current law as you extrapolate out, based upon increasing the benefit based upon the wage adjustment formula, and the amount of money that it costs versus what comes in on the productivity increase, creates the very minimal difference between the increase. That is how it gets eaten up. You will see it when you see the numbers.

Mr. MCDERMOTT. I would be glad to look at it.

Chairman THOMAS. That is an area that we do want to focus on, at least in terms of understanding the relationship between the formula that determines how much you get paid and the multiplier that increases the amount that has been determined under the formula. This Committee at the very least is going to understand how the system works if we are going to examine making changes to it. Does the gentleman from Pennsylvania, Mr. English, wish to inquire?

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Secretary, it is a privilege to have you here today. I have been listening very carefully to your answers, and I apologize if some of mine prove to be a little repetitive. I welcome the fact that in the President's budget there is a clear move to get us in the direction of lower deficits. But, frankly, I am haunted, sir, by a deficit that seems to attract too little attention within the Washington Beltway, and that is the fact that we are running a trade deficit against the rest of the world that is comparable to 5.5 percent of our GDP.

Now, I know you understand that. For a lot of people in my district, which is a manufacturing district, they less understand that abstraction than the fact that we have recently had roughly 200 steelworkers with their jobs at risk because of imports in the pipe and tube industry. There are a number of factors that have come into this situation, but I would like to pursue the line of questioning raised by Mrs. Johnson earlier, and that—and, frankly, ask you to elaborate a little further. In your budget, first of all, how

do you envision us moving to a lower trade deficit and sustainable trade deficit over time?

Number two, given that our largest problem in trade, in my view, is our trade relationship with China, and given that China entered the WTO making a series of commitments, one of them implicitly that they were going to follow currency standards, and since their economy is a little more substantial than that of, say, Sudan or Somalia, I think it is important that they follow these standards, recognizing, Mr. Secretary, that you and members of the Administration have been jawboning the Chinese to float the yuan for the last year and a half, and with, may I respectfully suggest, with very limited results, through no fault of your own. The fact is the Chinese continue to give us rhetoric. As you said in your answer to Mrs. Johnson, they express an understanding of our position, but they do not move in the direction of floating their currency the way they should and the way the WTO, by a common understanding, obliges them to do. Is the Administration prepared to confront China on its currency policies and the other elements of its mercantilism, and how can Congress help?

Mr. SNOW. Well, thank you very much, Congressman. The whole issue of the current account deficit is one we are spending a lot of time on, and a big part of the current account deficit is the result of the fact that the American economy is growing so much faster than our trading partners. As we grow faster than our trading partners, we generate more disposable income. Some part of that disposable income gets spent in purchasing imports from those countries. So, we are urging—urging the trading partners of the United States to adopt policies that will allow their economies to grow faster. As they grow faster, they will be in a position to buy more from us. Now, that means taking political action among our trading partners to take down barriers inside their economy, structural barriers to improve performance.

Secondly, we are pressing the yuan. It has been a matter of great importance to this Administration. The President has talked to the leadership of China about it, I have talked to the leadership of China about it. Former Secretary Evans has been in the forefront of market opening issues, I know you are aware of that, with China. I think that our course of quiet diplomacy, financial diplomacy, is better calculated to produce the desired outcome than are the alternatives like the 301s that were proposed by some last year, the trade sanctions. But we are not satisfied. It is critically important that China, as such a large part of the global trading system, play by the rules and have a transparent open economy where its currency values are set in the marketplace, just as ours are, and not the product of artificial manipulation.

Mr. ENGLISH. Thank you, Mr. Secretary. Please tell the Chinese that in Congress, among your allies, patience is running out. Thank you.

Mr. SNOW. Thank you.

Chairman THOMAS. If the Chair might very briefly. In that discussion, clearly asking the Chinese to float the yuan at the current time is a very difficult decision for them to make. You also rightly indicated that you wanted to see some economies improve, do better. One of the problems with the Chinese economy is that it is not

only doing better, the money is so cheap, it is I think somewhat overheated. One of the things you might ask the Chinese to do is to at least look at their interest rate, and not provide as cheap of money as they do, as a first step, to indicate they understand that we expect to allow some things to be realistic, and a real interest rate would be the first step toward a real currency. That hadn't been discussed in that exchange, and I wanted to put that on the table. That is far easier for the Chinese to do in the short run to show some good faith.

Mr. SNOW. Mr. Chairman, I agree with you. In our continuing dialog with the Chinese, there are a whole number of issues, including opening up the marketplace, using interest rates to allocate capital, and so on. So, you are onto a very good point there.

Chairman THOMAS. I thank the gentleman. Some are long range, some are much closer, and we expect the ones that are closer to be done. Does the gentleman from Massachusetts, Mr. Neal, wish to inquire?

Mr. NEAL. Thank you, Mr. Chairman. Mr. Secretary, you indicated in your opening comments that we should pay great attention to basic arithmetic. I think you mentioned that a number of times, and you said that we should put partisanship aside in our discussions here as they relate to Social Security. Let me see if I can get you to clarify the response you offered to Mr. Levin earlier. For that 40-year-old, does the President's plan cut the Social Security benefit?

Mr. SNOW. Well, the President at this point doesn't have a plan. He is offering a lot of ideas, he is helping to define the problem, he is inviting others.

Mr. NEAL. Well, let me follow up on that question then. I have read and I have listened and I have watched the President use the phrase, "the personal account." So, for that 40-year-old that I just described, would the personal account, in your judgment, fix his Social Security problem?

Mr. SNOW. Congressman——

Mr. NEAL. To ensure that the Social Security benefit would not be reduced?

Mr. SNOW. The personal account for a 20-year-old, 30-year-old——

Mr. NEAL. I said a 40-year-old.

Mr. SNOW. A 40-year-old would give them an opportunity to do better than they otherwise would.

Mr. NEAL. That is not the question, Mr. Secretary. I am asking, would they be guaranteed the same benefit, assured the same benefit as they are now with the personal account?

Mr. SNOW. Assuming they go into the account?

Mr. NEAL. Assuming they go into the account.

Mr. SNOW. Well, if they earn better than 3 percent on the money that they put into the account, which would be expected, they would do better.

Mr. NEAL. Could they foresee a reduced benefit under the current Social Security benefits?

Mr. SNOW. In the unlikely circumstance that the money taken out of Social Security——

Mr. NEAL. Is it possible?

Mr. SNOW. And put into these accounts earned less than 3 percent, it would be possible. That is very unlikely.

Mr. NEAL. Mr. Secretary, the President indicated that permanent accounts, private accounts on their own would not fix the Social Security problem. So, can you assure that 40-year-old that they are going to derive the same benefit as currently promised under Social Security?

Mr. SNOW. The——

Mr. NEAL. Why is it so hard to get a yes or no answer, Mr. Secretary? You would give a yes or no answer in your previous life as a chief executive officer, and you would do it flatly and you would do it with great confidence.

Mr. SNOW. I am trying to answer the richness of the question with the intention that you——

Chairman THOMAS. The Chair would indicate that if we could not go there, to personal references, the Chair would appreciate it.

Mr. NEAL. Mr. Chairman, he indicated there was a richness to my question.

Chairman THOMAS. I understand. But you made representation of the way he responded in a different situation.

Mr. NEAL. Well, if I could perhaps get a straight answer, Mr. Chairman, just a yes or no. I am talking about that 40-year-old.

Chairman THOMAS. I would tell the gentleman you have every right to ask a question; he has every right to answer it the way he sees fit. If he won't allow you to put words in his mouth, that is your problem, not his.

Mr. NEAL. Mr. Chairman, there is no attempt here to put words in his mouth. There is an attempt to extract words from his mouth.

Chairman THOMAS. We will discuss the dental plan later.

Mr. NEAL. So, we are not doing very well on that count. Let me ask you this. Are you familiar with Lawrence Lindsey?

Mr. SNOW. Yes.

Mr. NEAL. Do you have a pretty high opinion of him?

Mr. SNOW. Yes; I am a personal friend of Larry Lindsey. I think he is a good fellow. I don't agree with him on everything, but I think he is a very able person.

Mr. NEAL. Would you agree with him that the war in Iraq was going to cost between 200 and $300 billion?

Mr. SNOW. Going forward? Or what time frame are you talking about?

Mr. NEAL. He indicated that the war in Iraq would cost between 200 and $300 billion before we were done. Is that your position?

Mr. SNOW. Let us see. The war in Iraq is laid out in the supplementals. I would have to go back and look at the supplementals to see what that sums to.

Mr. NEAL. Let me ask you this, then. We are not doing very well in this question-and-answer period, obviously. The AMT is not included. I have talked about that for a long time. Time and again we have had this same sort of reference with the Administration. There has been a willingness on this Committee to take up the issue. We can't do it very well without the Administration's cooperation. The transition costs for Social Security are not included in the budget. The cost of the war in Iraq is going to be between 200 and $300 billion, probably more, and a simple yes from you

would go a long way toward helping those of us on this side refrain from the partisanship that you so carefully worded at the outset of your opening remarks.

Mr. SNOW. Congressman, I would be delighted to give you a simple yes if a simple yes would answer the question. Unfortunately, it doesn't. Therefore, I am not going to render a simple yes. What the war in Iraq will cost going forward is not at this point determinable. To the extent we do have a sense of that, it is reflected in the supplemental.

Mr. NEAL. Mr. Chairman, could I make a quick rejoinder?

Chairman THOMAS. Tell the gentleman that the Chair anticipated this and indicated that there could be a response in writing. I know Members are frustrated because they have worked on these questions for hours, indeed days. When you spring them on someone——

Mr. NEAL. Mr. Chairman, that was not the case with me at this moment.

Chairman THOMAS. I will tell the gentleman that when you spring them on someone and they don't give you the answer that you hope you get, a little bit of reflection I think is entirely appropriate. That is why we indicated the written response. If the gentleman wants a lengthy response to a question he asks, he might submit his questions in writing ahead of time so that someone could take as much time in their answer as he does in framing the question. Therefore, when we run out of time in our 5 minutes, it will be a written response which will be shared with the rest of the Committee. If the gentleman has additional questions, he certainly can submit those for additional written response. Does the gentleman from Arizona, Mr. Hayworth, wish to inquire?

Mr. HAYWORTH. Yes, I do. Thank you, Mr. Chairman. Mr. Secretary, let me add my words of welcome among other words that have been offered from the Committee today. We have heard any number of concerns, putting it mildly, about the future of Social Security. A couple of things perhaps we need to clear up and amplify. I heard my friend from Maryland mention the challenges confronted by individuals with disabilities. Some concerns have been aired about how the introduction of permanent accounts and some other possible changes to Social Security could affect benefits for individuals with disabilities and survivors. Would you now take some time and clarify the Administration's position on this issue?

Mr. SNOW. Yes, I will, Congressman. I am delighted to do it and delighted to have the chance to clarify that. The President has made clear that disability benefits will be sustained going forward, that people on disability will not be adversely affected because of the actions that are taken to put Social Security on a long-term sustainable basis. In fact, by putting it on a long-term sustainable basis they are going to do better, because the risk that those benefits won't be there, which are real risks today, will be addressed.

Mr. HAYWORTH. Mr. Secretary, we have heard a lot of other concerns shared today, and there have been desires expressed by some in this town on some of the Sunday morning news programs that the tax relief that we have enacted through this Committee, through the Congress, the President has signed into law, the tax relief that you again reaffirmed today should be made permanent,

if we were just to get rid of that, to get rid of the tax relief and the permanence of it, we could take those funds and dedicate that tax increase to Social Security and that would solve the problem. It seems to me that is viewing this in a vacuum. While there are those who would advocate major tax increases, let me point out for the record I am certainly not among them. To put that on the table, what effect would tax increases of this magnitude have on our economy, have on our American families, and ultimately on the Social Security program?

Mr. SNOW. Congressman, I think it is pretty clear that higher tax rates of the sort that would result from that action, the tax increases that would result, would have a very harmful effect on the American economy. We are in a good strong recovery now because of the lower tax rates. We have the 2.7 million jobs because of the higher tax rates. We have capital spending rising because of the higher tax rates. We have the best housing market we have seen because of the tax rates. We have the unemployment rate at 5.2 because of the tax rates. We risk all of that. We risk the prosperity and the job creations that have occurred if we reverse course. So, I would strongly urge us not to reverse course. I spend a lot of time talking to counterparts, central bank Governors and finance ministers from the rest of the world, the G–7, the G–20. We are the envy of the world. The performance of our economy strikes awe on the part of the finance ministers of the rest of the world. The Euro zone has growth rates less than half of ours. They have much higher tax rates. The Euro zone has unemployment rates double ours, triple ours. They have much higher tax rates. I think the lessons are clear here. To sustain the strong performance of the American economy, we need low tax rates.

Mr. HAYWORTH. Mr. Secretary, I thank you. Mr. Chairman, I thank you for the time. I yield back.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Louisiana, Mr. Jefferson, wish to inquire?

Mr. JEFFERSON. Thank you, Mr. Chairman. I want to see if I can give Chairman Thomas some support this morning from this side. He has made some comments, he made some early on comments. When the President announced his plan for Social Security or part of the plan for it, that we really could look at this thing in isolation. As my colleague from Louisiana, Mr. McCrery, has said, it is tied up with demographic problems of an aging America and an aging world. He said, Chairman Thomas has said that we need to look at this not only in the paradigm of the existing Social Security system, but we must look beyond that and to the totality of retirement security issues. Do you agree or disagree with the Chairman's statement in that regard?

Mr. SNOW. I agree with the Chairman. The issue we are dealing with here is really retirement security and how to promote retirement security.

Mr. JEFFERSON. If you agree with that, then, wouldn't it—isn't it incumbent upon the Administration to talk about this budget in those terms, to talk about what would happen with Medicare, what would happen with Medicaid for the elderly, and what should happen with Social Security in this budget document so that we can see how we can approach the Chairman's objective here?

Mr. SNOW. Congressman, in the budget we have submitted talks about enhancing savings vehicles for retirement, so-called retirement savings accounts, which are an awfully good idea. It talks about——

Mr. JEFFERSON. If I might cut you off there. We are talking about a problem with aging population and the Medicare, Medicaid, and the Social Security as all being part of a bundle of problems. The Chairman has said we should address these, and the budget doesn't seem to tell us how to get there.

Chairman THOMAS. Would the gentleman yield briefly?

Mr. JEFFERSON. Yes, sir.

Chairman THOMAS. The Chair is anxious to provide the gentleman with more time based upon his direction of questioning. But the Secretary is here to present the President's budget. The President has every right to structure his budget as he sees fit to present to us. We, however, have every right to examine that budget and deal with it as we see fit. So, the Chair appreciates the gentleman's attempt to get the Secretary of the Treasury to say that they should have written a different budget, but I think they have every right to write the budget that they choose to write, just as we have every right to deal with the issues as we see fit. So, the Chair thanks the gentleman.

Mr. JEFFERSON. Of course, I hope that the Chair would appreciate my concern for his position, and I believe that the Chair has stated a wise position. The other point I want to make—I hope it didn't take away from my time as we were going through that. The other point I want to make is that if you agree that the Chair is on the right track, then it opens up a lot of possibilities that we have to talk about either in this context or later on. It seems to me that this budget ought to talk about how we get to the issue of new revenue sources for the Social Security system, if we follow the Chairman's line of thinking here. Mr. McCrery also talked about the need for a new revenue source there.

We have taken everything off the table here, we have taken the payroll taxes off the table, but there are many other revenue sources that ought not be off the table that we ought to take a look at. I am hoping that in this debate and discussion that we will come forth honestly with a plan to deal with all these issues that deal with the demographics of our country and our whole retirement system. I don't think, Mr. Chairman, and I know you don't want me to help you out anymore along this line, but I do believe that it is important to get, to find out why the Administration won't acknowledge the fact that you have made a wise statement here and that this Committee ought to be working, the Administration ought to be proposing along the lines of your——

Chairman THOMAS. Would the gentleman yield briefly? I think, in all fairness, had the Chair made his statement sometime last year while they were beginning the process of putting the budget together, that we could indicate why you didn't respond to what we had to say. But the Chair made its statements after the budget was pretty well locked up. So, we have a document that is being presented; then we can move on in terms of Congress dealing with the budget that is presented. That is the area that I especially hope the gentleman from Louisiana continues to talk the way he does

with the additional time the Chair is willing to allow him because of the Chair's interventions.

Mr. JEFFERSON. I am hopeful that if we are going to reach a bipartisan result, then we can't take a starting point—we can't take the ending point as the starting point for the President nor for the starting point of where some of us may be on this side. But we have to have an open discussion about where we ought to go. I am confident that if we look at this whole panoply of things the way we can—the blocks that we can use to fix Social Security, there will be many ways to fix it outside of this property account business. One point, it really doesn't do the job anyhow on property accounts; it doesn't bring solvency to the system. It may add some retirement security if you exceed the 3 percent that you talked about, which is another whole notion here. It doesn't work like a 401 account where all the money is yours really; it is not your nest egg; you take away the 3 percent, it is like a loan you borrow from the government with 3 percent adjusted for inflation down the line, and you end up with whatever is left, if there is anything left over and above it.

So, there are a lot of complicated issues related even to that. If you believe the stock market is going to work beautifully, and then there will be a hitch in it, and everything is going to work and personal accounts are going to grow. At the end of the day it is a loan from the Government, administered by the government, with the 3 percent, inflation-adjusted, paid back to the government for retirement; and, whatever is left, you end up keeping; minus you are going to take something from the guaranteed benefits to even make that work. So, it has got to be an open discussion about this. I appreciate the Chairman's suggestion in that regard, and I hope we can find a way to support our Chairman as we move along to a much broader discussion of private accounts and this whole business.

Chairman THOMAS. I would tell the gentleman that our job is to legislate, get to a conference that the House and the Senate can agree on; then the next step in the legislative process is to have the President sign the bill. That needs to be part of the process as we move forward, because without it we won't make law that all of us want to in the area of an aging society. The Chairman thanks the gentleman's comments, and hopes that he won't be abused too much by his side for his admittance.

Mr. JEFFERSON. Mr. Chairman, I hope you recognize how committed I am to this whole process. I missed Mardi Gras in Louisiana today just to come here to support——

Chairman THOMAS. No one else can up that in terms of the commitment that has been made. The Chair appreciates it. Although it may be a contribution to your continued aging by not going to Mardi Gras. You will live longer. Does the gentleman from Illinois, Mr. Weller, wish to inquire?

Mr. WELLER. Thank you, Mr. Chairman. Mr. Secretary, thank you for your time before us today. It is good to see you. Let me begin by commending you, and particularly President Bush, for your leadership on addressing the need to change our Tax Code and make it more simple and more fair, but also more competitive in today's global economy.

One thing that is really handicapping American manufacturers, particularly Illinois manufacturers and other Illinois employers, is our Tax Code which is holding us back. I am looking forward to the recommendations of the Commission that the President has appointed soon, and look forward to working with you on that. This past year—and I have got two subjects I would like to ask you questions about, Mr. Secretary, and I appreciate your response. This past year with the leadership of Chairman Thomas, the American Jobs Creation Act of 2004 (P.L. 108–357) was moved through this Congress and signed into law. Of course the primary goal in that legislation was helping simplify the Tax Code as it impacts manufacturing and other sectors of our economy.

One of the areas that I worked with the Chairman on and others on this Committee was helping our maritime industry, U.S.-owned international shipping, to be more competitive. We included in the legislation, it was in section 415 of the Jobs Creation Act regarding subpart (f), tax treatment for U.S.-owned shipping, a provision designed to give American companies the opportunity to be more competitive. I was concerned when I learned that there are some within your Department that are actually—the way they are interpreting the legislation as it was passed and signed by law. The interpretation and the implementation of this law under Treasury rules would actually place U.S.-owned shipping in a less competitive position than they were prior to the enactment of this law. I was wondering, number one, can you just tell me what your view of this is? Where is the Department?

Mr. SNOW. Congressman Weller, we will work with you and your staff. I know you have got an issue here, and I was advised about it. Treasury is intent on implementing all the provisions of the Jobs Act in a way that fulfills the congressional intent, and we always try and do that. I know from time to time Members of Congress think we don't get it right and we hear from you. We will always be attentive to those comments. But our intent is to get it right and interpret that legislation, that provisional legislation, in a way that fulfills your clear intent.

Mr. WELLER. Thank you, Mr. Secretary. We do want to work with you. I appreciate your commitment to work with us, because, again, our goal is to give American-owned shipping firms the opportunity to be competitive in today's global economy.

The second issue I would like to raise with you is one that has been hanging out there for 6 years. For thousands of middle-class investors, people who want to invest in a little piece of land or a rental property or a storefront for some income, the ability to do a like-kind exchange is an important opportunity for them to protect what for them is their nest egg for their retirement. Six years ago, in 1999, the Treasury Department—and this, of course, began in the previous Administration—proposed regulations relating to like-kind exchanges. For 6 years now, those who make this type of investment have been waiting for those regulations to be finalized and put forward. I was wondering, Mr. Secretary, can you tell us the status of those regulations? How soon do you expect them to be issued and what do you expect them to say?

Mr. SNOW. Well, I can't tell you what I expect them to say at this point, Congressman. But I am aware of the 468(b) project

rules, and Treasury and the Internal Revenue Service (IRS) are both working to complete the project and hope to release those rules fairly soon. So, we are making progress on them and expect to see them out here before too long.

Mr. WELLER. Thank you, Mr. Secretary. I certainly encourage a timely conclusion to this process. Six years is far too long for middle-class investors to wait. So, thank you.

Mr. SNOW. I agree.

Mr. WELLER. I yield back, Mr. Chairman.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Tennessee, Mr. Tanner, wish to inquire?

Mr. TANNER. Thank you very much, Mr. Chairman. I will try to be brief. I have got some questions in writing I would like to submit, Mr. Secretary, in the interest of time. When you were here in 2003 before the Committee, I asked you about the debt, part of the publicly held debt held by foreigners.

Mr. SNOW. Right.

Mr. TANNER. In 2001, that was about 30 percent of our outstanding debt; in 2003, it was 37 percent. Now it is 44 percent. I wanted to ask you, is there any point at which foreign holdings of U.S. publicly held debt pose a problem, in your opinion?

Mr. SNOW. Not at the current levels, Congressman Tanner.

Mr. TANNER. At what level, sir, would you say?

Mr. SNOW. I don't know that I want to draw a line there and identify any particular level.

Mr. TANNER. Well, it is something less than a hundred, I would assume.

Mr. SNOW. Sure. But I do not think it is helpful for me to draw a line and say, anything above that is where the alarm bells go off. Foreign governments are interested in holding U.S. paper for reasons we talked about earlier. I think Congressman McCrery laid it out well. It is the best paper in the world. It is the safest, most secure investment in the world, and foreign governments have investment profiles that cause them to want to hold this gilt-edge paper in the United States.

Mr. TANNER. I agree. The reason I asked that question is, there have been some comments in the London Financial Times and from Asia recently that, really, prior to 4 or 5 years ago, 3 or 4 years ago, there was not an alternative for Reserve currency to the dollar. We are now seeing people talk about the euro being an alternative. The reason I ask, at what point do you see this, and I understand why you cannot answer in this forum, this not—this being a problem, is, because once they shift or begin to shift, if they do, from the dollar to the euro, we have got a major problem in refinancing that debt. I want to follow that up with you at some point, and not in this setting. Let me move quickly to——

Mr. SNOW. I would be happy to do that, Congressman.

Mr. TANNER. One other question. Under this budget, we will incur an additional $1.3 trillion of publicly held debt under the budget that you have submitted. In 2001, the privately held debt upon which we write interest checks every year was about $2.96 or about $3 trillion. Of that number, we were paying about $120 billion in interest. Today, it is $4.42 trillion. We are now up to about $160 billion a year that we write checks for in interest. You

are going to add to that another $1.3 if your budget is true. Now, Mr. Secretary, at what point is the interest that is coming out of the current tax base going to impact, or is it already impacting directly our ability to meet the obligations of the United States Government with regard to investments in human capital and infrastructure? We are diverting billions of dollars from productive, hopefully, expenditures to interest.

Mr. SNOW. Right. Congressman——

Mr. TANNER. This is a matter of real of concern to me. We have talked about it before, about what we are doing is creating a tax that cannot be repealed called interest.

Mr. SNOW. Well, I am glad you raised the whole issue. Despite the rising debt of the United States, which we need to keep focused on, I agree with you, interest obligations as a fraction of the deficit are falling, reflecting the very favorable interest rate environment we enjoy today, and which we would expect to enjoy for the future, because we have such low inflation in the United States. Inflation is low. Interest rates are low. That has created a very favorable environment. Even as the debt levels rise here in the years ahead, in the budget that we put forward, you will see that the interest obligation portion of the deficit remains fairly modest, because of low interest rates. But it is something that we very much need to keep attuned to. I agree with you.

Mr. TANNER. I just hope you are right about that assumption, because if you are not, this thing can explode on us. As interest rates rise, there is nothing that we can do about it.

Chairman THOMAS. Thank the gentleman. The gentleman from Kentucky, Mr. Lewis, wish to inquire?

Mr. LEWIS OF KENTUCKY. Thank you, Mr. Secretary. In 2042, my daughter is going to be right at the age of retirement. My granddaughter is going to be paying for her retirement. If we do nothing, how is that going to affect my daughter's benefits and my granddaughter's ability to pay?

Mr. SNOW. Well, your granddaughter is one of those two that the Chairman opened with. Your daughter, assuming nothing is done, will have her benefits much lower than the benefit that is available today, because the system cannot pay the benefits that are scheduled today. That is, I think, a simple and undeniable fact; the system is going to be unable to pay those benefits

Mr. LEWIS OF KENTUCKY. Without massive increases in the payroll tax?

Mr. SNOW. Without a massive increase in the payroll tax or a huge amount of borrowing, neither of which is consistent with keeping the American economy on the sort of course that you want to see it for your daughter and granddaughter

Mr. LEWIS OF KENTUCKY. You probably could not even increase the retirement age to even affect it in any way?

Mr. SNOW. Increasing the retirement age alone, while it has some effect, does not have a major effect on sustainability. It helps, but it is far from the major factor

Mr. LEWIS OF KENTUCKY. So, with the exception of Mr. Jefferson, it seems like my colleagues on other side, they do have a plan. I would call it the do-nothing plan. The do-nothing plan would increase the payroll tax significantly, maybe by as much as

50 percent. The do-nothing plan would cut benefits. The do-nothing plan would increase retirement. So, when I see people wringing their hands and worrying about what the President is trying to do and what we are trying to do as a Congress to make sure that my daughter and my granddaughter are going to have a sustainable retirement plan, one that is even going to provide benefits greater than what is being received today, I have to wonder, what is the problem here? I think it is certainly better to do something now than to stick our head in the sand and wait for a disaster to happen to our kids and our grandkids.

Mr. SNOW. That is why the President has put this issue before the American people and before the Congress, Congressman Lewis, because now is the time to act. Every year we wait it gets more difficult. By acting now, we can secure for your daughter and granddaughter a much better retirement future than otherwise would be the case.

Mr. LEWIS OF KENTUCKY. Thank you, sir.

Chairman THOMAS. Thank the gentleman for yielding back a minute and a half. The Chair intends to ask the Secretary to stay until 1 p.m. He has other commitments on the other side of the Capitol shortly after that. That will even rush it. If every Member who is left takes the full 5 minutes, not every Member will have the ability to inquire. So, if Members could show some focus and willingness to share, everyone will be able to ask at least a question. The gentleman from California, Mr. Becerra wish to inquire?

Mr. BECERRA. Yes, Mr. Chairman. Thank you very much. Mr. Secretary, thank you for coming again. Mr. Secretary, we went into this whole idea of a plan again and the discussion about plans. As far as I can tell, there is no plan from anyone that the President has accepted or adopted; the President himself has not issued a plan. You yourself just said the President does not have a plan. It would be much better for this debate if, at some point, the President would give us a plan so we have a sense of what he would like to see done. Congress, otherwise, is going to be debating with nothing to look at from the President, who is the one who is initiating this discussion. So, I hope that, at some point, we will get a plan with specifics in writing, because we know the devil is in the details, from the President. I would like to just ask a series of questions, because I want to make sure there is clarification on some of these issues. Today, the Social Security trust fund has assets. My understanding is that they total about $1.7 trillion in the bank. Would you agree with that?

Mr. SNOW. Yes.

Mr. BECERRA. By the year 2018, if I have these numbers correct, the trust fund, the Social Security trust fund, will have in the bank, in assets, about $5.3 trillion. Is that correct as well?

Mr. SNOW. I would have to check that. But it will have substantial assets.

Mr. BECERRA. Everything I am looking at from the actuary says that, by 2018, we are looking at about a $5.3 trillion surplus in the Social Security trust fund.

Mr. SNOW. Yes. There will be a surplus, and then it gets drawn down over the next decades.

Mr. BECERRA. If you are not sure about 2018, you might not be sure about the next date.

Mr. SNOW. Oh, no. I am sure about the 2018. I was not sure whether it was $5 trillion or $5.5 or whatever in the account at that time.

Mr. BECERRA. $5.3 trillion. Some 9 years later, 2027, we are told that the Social Security trust fund will have assets projected to be around $6.6 trillion. Do you agree with that number?

Mr. SNOW. Well, if you are taking it from the actuary, I will stipulate to it.

Mr. BECERRA. Actually, these are my notes from all the information provided by the actuary and others. You mentioned 2042 as the date when we expect those trust funds assets to be depleted. If I read your budget that has been submitted by the President correctly, this fiscal year, 2005, you are projecting a unified budget deficit for this 2005 year of $427 billion. Correct?

Mr. SNOW. Yes.

Mr. BECERRA. Now, if you were to extract the $162 billion from the Social Security trust fund surplus that you are using to reduce the size of the deficit, the actual size of the deficit for this operating year, 2005, would be $589 billion. Correct?

Mr. SNOW. If you did the math that way, yes.

Mr. BECERRA. So, over the next 5 years, the President's budget runs up a deficit, cumulative deficit, of approximately $1.4 trillion. If you were to exclude the Social Security surplus money that you are using, you are spending each of these next 5 years for something other than Social Security, the actual size of the government's operating budget deficit would be closer to $2.5 trillion. To me, the question becomes, and this is perhaps what I would like to ask you, how is it that a trust fund and a system that is running surpluses, where up until the year 2027, some 20 years from now, we find that the system itself will have in the bank more than $6 trillion, that there is a crisis and a need to act so immediately to dismantle that program that is running a surplus, where the Federal Government, under the President's own budget is running massive deficits today, and yet there is no need to change a course when it comes to tax cuts that go principally to wealthy folks?

Mr. SNOW. Well, Congressman, you are correct that the Social Security trust fund will continue to have substantial assets in it after 2018. The point is, though, that those assets will be depleted over the next several decades.

Mr. BECERRA. I think, Mr. Secretary, all of us agree with that.

Mr. SNOW. Good. We made progress.

Mr. BECERRA. Do you disagree with the statement that was made earlier by one of my colleagues that, in fact, if you were to take just the 1 percent wealthiest American households in this country, that you can actually use that savings and preserve Social Security forever?

Chairman THOMAS. The Chair thinks that is an excellent question to respond to in writing.

Mr. BECERRA. I would appreciate a response, Mr. Secretary, in writing if you could.

Chairman THOMAS. The gentleman from Florida, Mr. Foley, wish to inquire?

Mr. FOLEY. Thank you. Welcome back, Mr. Secretary. I understand the budget contains language on a bill I offered, along with Senator Bond. The IRS recently has taken the opinion that a Federal Emergency Management Agency mitigation grant could be considered taxable income. I understand the budget does contain language that would keep those from being taxable. Am I correct?

Mr. SNOW. Yes.

Mr. FOLEY. I also understand in this budget that the President has chosen to make the 15 percent tax on capital gains on stocks and dividends permanent?

Mr. SNOW. Yes.

Mr. FOLEY. Good news for investors. Let me give you the following returns on our Thrift Savings Accounts: G fund, which is the bond, 6.04 over 10 years, averaged; the F fund, fixed income, 6.95 percent 10-year average, compounded; C fund, the equity in the markets, 10.99. The S fund, the small cap fund, 9.70, 10-year average, including the bad years, we had 3 bad years; 4.32 in the international fund, a more recent addition to the portfolio. Are these returns better than we are currently achieving in the Social Security fund?

Mr. SNOW. Yes.

Mr. FOLEY. Those returns, if aggregated, would in fact enhance the well-being of the program?

Mr. SNOW. Yes. The individuals who would be the beneficiary of the investments in those programs. Yes.

Mr. FOLEY. We have got a lot of new beneficiaries coming online, don't we?

Mr. SNOW. Yes, and fewer workers. That is the basic problem. Demographics is the problem.

Mr. FOLEY. If you would indulge me, let me read a few quotes. 1998, Bill Clinton: The fiscal crisis in Social Security affects every generation. Dick Durbin, Senator of Illinois. Durbin said, due to the increasing number of baby boomers reaching retirement age, Social Security will be unable to pay out full benefits. Unable to pay out full benefits. Harry Reid, Senate Minority Leader: Most of us have no problems with taking a small amount of the Social Security proceeds and putting it into the private sector. In fact, on Fox News' With Tony Snow, he says, are you opposed to be letting people make investment decisions, in other words, having some component where they say, I will save the money rather than letting Uncle Sam do it for me? Senator Reid: I think it is important that we look, and I am totally in favor of doing this. Senator Baucus: I think the problems we are facing with Social Security are going to be upon us a little more quickly than I think some people realize. Chuck Schumer, Senator from New York, 1999: We have to move on now and start fixing Social Security and preserving it. Senator Dorgan: Fixing Social Security is an urgent priority. It ought to be at the top of both parties' agendas. Former Representative Dick Gephardt: Why should Social Security recipients be disadvantaged by not getting to be able to have high returns out of the stock market? President Clinton: Investing will earn a higher return and keep Social Security sound for 50 years. The President proposes—Clinton: I propose to limit the aggregate amount of our investments to about 4 percent. It will never get over 4 percent the

next 20 years. Let's just drop here a few more. The financial crisis in Social Security affects every generation. I have said that. Senator Clinton, New York: Clearly, it is in all of our interests to preserve and strengthen Social Security into the next generation. If we do not want to burden our children and grandchildren, if we want to make sure that Social Security remains solvent well into the 21st Century, we must make bold decisions now. That, again, is 1999. Gene Sperling, White House Economic Advisor: Over a long period of time, there is every reason to believe that people will get higher returns if government invests part of the Social Security surplus. Vice President Gore: This whole national discussion, one of the single most important salient facts that jumped out at everybody is that, over a 10-year period in American history, returns on equities are just significantly higher than these other returns. Fairly compelling statements. Wouldn't you agree?

Mr. SNOW. I would agree.

Mr. FOLEY. All from Democrats, all indicating that Social Security needs to be fixed. My hope is, representing the fifth largest senior population in America, that we put everything on the table, that we look at these programs in context to their survivability, if you will.

Now, a lot of people have questioned you today about the sterling nature of our bonds, and they are first to pay. That is the nature of Treasuries. Our first obligation is to pay our debt. So, we will always back up the bonds. But you made a poignant example of a corporation. You can only go so long taking in less income and paying out more before you are subjected to Chapter 7 or 11. Isn't that correct?

Mr. SNOW. That is absolutely right.

Mr. FOLEY. We are heading in that direction?

Mr. SNOW. Without any doubt, that is where we are headed.

Chairman THOMAS. The gentleman's time has expired. The Chair would indicate that continuing along with the full 5 minutes until the red light will deny some of our colleagues the opportunity to inquire. The gentleman from Texas, Mr. Doggett, wish to inquire?

Mr. DOGGETT. Thank you, Mr. Chairman. Thank you, Secretary. Mr. Secretary, the figures that I have here suggest that, over the next decade, Social Security will actually generate a surplus of about $2.6 trillion. Does that sound about right?

Mr. SNOW. Yes. The system——

Mr. DOGGETT. Do I understand that the budget that you are so proud of, and the administration's proud of here this morning, proposes to borrow every penny of that $2.6 trillion from the Social Security trust fund and use it for non-Social Security purposes?

Mr. SNOW. Well, the obligations in Social Security, Congressman, as I have said over and over, will be honored. Every penny——

Mr. DOGGETT. Yes, sir, you are going to honor them, but you are going to borrow from Social Security and use it for non-Social Security purposes. Correct? $2.6 trillion worth of borrowing?

Mr. SNOW. That is correct. They will be backed by the IOUs and obligations of the U.S. Government.

Mr. DOGGETT. I appreciate the fact that they will be honored and backed up, even though you are going to borrow from them for purposes that people did not pay into Social Security. You are raiding the trust fund. Let me ask you about the accuracy of one other thing. Last Friday, the Washington Post, under an article entitled, "Benefit Cuts Would Offset Contributions, White House Explains the Proposal Further," there was an indication by the White House that there would be an offset, dollar-for-dollar reductions in Social Security statutory guaranteed benefits, for the new personal investment accounts. That is, every dollar that goes into personal investment accounts, there will be a dollar-for-dollar cut in the guaranteed benefits. I have not seen any correction requested from the White House to that story since last Friday. Are you demanding a correction of it this morning?

Mr. SNOW. Congressman, I have been traveling so I did not see the story.

Mr. DOGGETT. Yes, sir. Well, you do not disagree that, under the general principles, you said that, although there is a crisis, the President does not have a plan to address the crisis, but under the principles that he has announced, the plan is that, every time you take a dollar out of your Social Security for these investment plans, you are going to have a reduction in your guaranteed statutory benefits?

Mr. SNOW. On the other side——

Mr. DOGGETT. You may have some gain, you may have some loss; it is up to the market.

Mr. SNOW. You are going to have an account.

Mr. DOGGETT. Let me ask you about advice that you have received from Mr. McCrery, who has already questioned, Mr. Shaw, as reported in that same Friday issue of the Post, a suggestion, according to the Post, that Mr. McCrery thinks the President's plan, and I guess he assumes the President has one, must be changed in a fundamental way, and that we need to scrap the idea of funding the private accounts with money earmarked from the Social Security trust fund. Why is the Administration rejecting the advice of Mr. McCrery and Mr. Shaw on this important point?

Mr. SNOW. I do not think that the coverage that you read properly characterized the comments of the very distinguished Member from Louisiana.

Mr. DOGGETT. You think I mischaracterized the comments? Let me just read it to you . . .

Mr. SNOW. No. No. I said, I do not think the newspaper coverage that you are citing properly and authentically covered the comments that the——

Mr. DOGGETT. Well, it was not just one. I mean, it was repeated in a number of papers, that they thought the idea of funding accounts with money earmarked for Social Security from the trust fund was not a good idea. You think it is?

Mr. SNOW. Oh, yes. Yes. Absolutely. But you say the President does not have a plan. On the——

Mr. DOGGETT. No, sir. You said that earlier this morning. I am just repeating your words.

Mr. SNOW. The President has put forth quite a detailed plan on how the personal accounts would operate.

Mr. DOGGETT. Well, Mr. Secretary, the record will speak for itself, but you told this Committee a few minutes ago the President does not have a plan. I know he has some principles, and those principles are based on the fact that you all think the Social Security system is about to go bankrupt. Is that because the Social Security system cannot fully fund all of its future obligations?

Mr. SNOW. That is precisely what bankruptcy means.

Mr. DOGGETT. If you use that definition, don't you have bankruptcy in many private pension plans of major corporations in America?

Mr. SNOW. Congressman, no. I would not say that.

Mr. DOGGETT. Well, don't you have many private pension plans, I mean the Pension Benefit Guaranty folks put out a report; many private pension plans that are not fully funded to meet all of their future obligations?

Mr. SNOW. There are some that are not fully funded. But there is a major difference between not being fully funded and being bankrupt.

Mr. DOGGETT. Yes, sir, there surely is.

Mr. Secretary, the House Republican Study Committee has said that your approach is too timid at just 4 percentage points of Social Security, and you ought to go to 6 percentage points in almost all of the employees contributions to Social Security. Why aren't you doing that?

Chairman THOMAS. The gentleman's time has expired. That will be a written answer submitted by the Administration. The other gentleman from Texas wish to inquire?

Mr. BRADY. Yes. Thanks, Mr. Chairman. Let's have a quick reality check. One, the Washington Post article was corrected the very same day; the key point of that article being discredited. Secondly, Congress has borrowed from the Social Security trust fund since President Johnson initiated it way back when. Finally, if the President has no plan, why is everyone so critical of it? The fact of the matter is, the President laid out a plan to the Nation. Today, I see in one of the local Capitol Hill papers, Democrats will offer no Social Security reforms. On one of the most serious matters affecting our future, our kids' future, Democrats will offer no Social Security reforms for now. Let's stay on the issue of hypocrisy. People back home always ask me, especially since this debate has started: Why is it that Members of Congress are able to put their hard-earned savings into personal accounts that are safe and secure for their families, but you deny it for average Americans? Why do Members of Congress and their staff and our coworkers put $15 billion a year from our paychecks into personal accounts like, as has been proposed, that it is good enough for our families, but it is not good enough for the average people who pay our salaries. What would you tell my folks back home about why we are allowed to do that and embrace it as safe and secure, but we call it a guaranteed gamble for regular families. Can you give me an answer?

Mr. SNOW. Congressman, I think if I was the sitting Member from your district, I think I would say they ought to be given that opportunity.

Mr. BRADY. Well, a lot of my folks say, maybe Members of Congress ought to lead by example. If all personal accounts are so

risky and a guaranteed gamble, why don't we withdraw from them? Why don't we set the example and live like everyone else in America? It seems to me, Mr. Secretary, that in this proposal by the President, we are giving younger workers a choice. They can choose real money in a real account, building up over time, or they can accept an IOU in an imaginary ledger; hopefully, it will be paid by a generation once removed from them. It seems to me, if we are serious about preserving Social Security, if we can take good ideas instead of offering no Social Security reforms, getting good ideas from your Democratic friends, taking the best ideas from the country and from the Republican side, I am just convinced, if we will set aside the politics and the petty stuff in here that we actually can come up with a plan that can preserve Social Security once and for all, and for every generation. If we will call time out on the silliness and just get serious.

Mr. SNOW. Congressman, I think you framed the issue very well there. With the personal retirement accounts what really happens is this: Americans have the opportunity to become owners of their own retirement, rather than merely being creditors in a promise that the government cannot keep. That is the essence of this situation.

Mr. BRADY. Thank you, Mr. Chairman.

Chairman THOMAS. I thank the gentleman for the 1 minute and 30 seconds that he was kind enough to yield back. Does the gentleman from North Dakota, Mr. Pomeroy, wish to inquire?

Mr. POMEROY. Mr. Secretary, I would like to follow up on the preceding line of questions. The TSP is essentially a defined contribution plan available to employees of the Federal Government. Is that correct?

Mr. SNOW. Yes.

Mr. POMEROY. That is not like some alternative Social Security program, Members or staff members of the Federal Government today are part of the Social Security program. Is that correct?

Mr. SNOW. Yes.

Mr. POMEROY. So, I think you would be a little confused listening to my Texas colleague. The TSP is essentially a 401(k). Now, that is not unique to people in the Federal Government. There are 401(k)s all over the country, indeed about $2 trillion is invested in 401(k) accounts. Is that correct?

Mr. SNOW. Yes. The 401(k)s are a very popular investment vehicle.

Mr. POMEROY. Mr. Secretary, if I might. We need to make this clear. The 401(k) is an account on top of Social Security. So, you have the Social Security providing the foundation of retirement income, and I am informed that, in my State, the average Social Security check is about $834 a month. The 401(k) proceeds the worker may have and be drawing down on retirement, that would be on top of Social Security. Is that correct?

Mr. SNOW. Yes.

Mr. POMEROY. For example, when you have a market correction, and you go from the late nineties valuations in the stock market to after the correction in the early part of this decade, very substantially smaller amounts in 401(k)s. The old joke: My 401(k) became a 201(k). Even though there would not be as much retirement

assets available to the retired worker because of the stock market fluctuation relative to their 401(k), Social Security continues to pay that annuity every month. That was not effective; was it, Mr. Secretary?

Mr. SNOW. No, it was not. But it will be in 2042 when you cannot pay it out any more. That is the whole point.

Mr. POMEROY. Well, 37 years from now, if we do not do anything, there would be a 25-percent reduction. I think we need to do something. In fact, the comments made by my Florida colleague about Democrats saying we should address Social Security; when we had a surplus, we wanted to use that surplus to address the long-term issues about Social Security.

Unfortunately, decisions made by this panel, the majority, have spent that surplus on tax cuts and other things and driven us to the deepest deficit position in the history of the country. You, who presided over that decline. The issues that I want to get into, and that I think are critically important, involve this change of the price index to the price index from the wage index. Are you familiar with the strategy memo written by a member of the White House staff, Peter Wehner, Director of Strategic Initiatives for the Bush Administration?

Mr. SNOW. I have seen it.

Mr. POMEROY. I will quote to you from it. We simply cannot solve the Social Security problem with private retirement accounts alone. If we borrow $1 to $2 trillion to cover transition costs for personal savings accounts and make no changes to wage indexing, we will have borrowed trillions and will still have unfunded liabilities. Is that your position, too, Mr. Secretary?

Mr. SNOW. My position, as I have said repeatedly here, is that the personal accounts are an integral part of any solution to this Social Security feasibility problem.

Mr. POMEROY. Now, Mr. Secretary, do you believe that changing from a wage index to a price index is also an integral part of long-term sustainability for Social Security?

Mr. SNOW. It is not a necessary condition to put Social Security on a feasible course.

Mr. POMEROY. Mr. Secretary, this is critically important.

Mr. SNOW. There are a number of ways to do that.

Mr. POMEROY. Mr. Secretary, on the index, which is critically important, on this future inflation adjustment to Social Security, the wage index to the price index. Are you saying in your testimony today that we do not need to make that change; we do not need to change the price index going forward as part of Social Security reform?

Mr. SNOW. I am saying it is one option. It is an option that should be looked at. There are a number of options.

Mr. POMEROY. Mr. Secretary, is it an integral part? You have said private accounts are integral parts. Is the wage index to the price an integral part?

Mr. SNOW. Not in the same sense, because it is one of a number of options. The objective here has to be to put Social Security on a sustainable permanent course. Whatever the answer is, and the President has suggested a number of options in his State of the Union address, whatever it is, it has to achieve——

Mr. POMEROY. The price index change would steeply cut benefits going forward, even if you count the value of the private account. I would——

Mr. SNOW. Well, according to the Social Security Commission, both model two and model three, you can come out ahead of where you would be with Social Security if you have the private accounts.

Chairman THOMAS. The gentleman's time has expired. The gentleman from Wisconsin wish to inquire?

Mr. RYAN. I do. Mr. Secretary, I do have a few questions. I notice that you are hearing a lot of rhetoric on the other side. This is essentially the plan that is being offered by the other side: Nothing. Now, I would like to get to the question of whether there is a problem or not, because we have been distributed 5 pages of quotes from then-President Clinton and leading Democrats all in 1998 and 1999 saying, Social Security is going broke; there is a problem; we have to act to fix it now. The more we delay, the more painful the options become. We can go on and on about that. The point is, let's get to this whole trust fund idea. It has been said that we have $1.7 trillion of assets in the trust fund; that we will have by the time 2018 rolls around something like $5.3 trillion in assets. What are those assets in the trust fund? Is there a bank account with money in it? Are there tradable bonds or stocks that we can just draw on, once 2018 rolls around, that will take us to 2042? What are those assets?

Mr. SNOW. Well, those assets are IOUs from the United States Department of the Treasury to the Social Security Administration.

Mr. RYAN. So, when 2018 comes, and according to the trustees, of which you are a member, we have less revenues coming in than benefits being paid out, is there, all of a sudden, money that we can draw upon from these assets, or do we have to come up with the money somehow?

Mr. SNOW. No. You have to come up with the money. It will be a sizeable amount of money. It will have a major impact on the deficit.

Mr. RYAN. So, there is no cash behind those assets, we have to either raise taxes, cut spending, or borrow more money starting in 2018 to continue paying benefits for Social Security in 2018. Is that correct?

Mr. SNOW. Unfortunately, Congressman, those are the only options.

Mr. RYAN. That is right. So, I think this notion that we are fine for 37 years, no problem until 2042, is really quite misleading. That is wrong. We will, in 2018 have to come up with money, which we do not have right now, to continue paying seniors' benefits. The question then that I think we are trying to get at is, can we do a better job than we are doing right now for Social Security? My generation is looking at about a 1-percent rate of return. My children are getting a negative-1-percent rate of return. No one is talking about depriving people who are in or near retirement of any promised benefit. It has been taken off the table. The President and Congress have all been saying, if you are in or near retirement, you will have exactly the same Social Security benefits with no benefit change whatsoever. The question is, can we take this debt that we owe, this unfunded liability, which is really $12

trillion in present value terms, and convert it into a real asset where workers can get a better rate of return, retire with better benefits and wipe this liability off our books? So, even if the critics who are saying this plan will cost $2 trillion, let's just give them face value and say the plan does cost $2 trillion. If we have a plan that costs $2 trillion and, in doing so, it gives workers personal retirement accounts where they can own and control their money, they retire with better benefits, and it wipes off the books a $12 trillion debt, I will take that deal any day. So, the question I have, Mr. Secretary, is, starting in 2018, what is the debt that we owe? What is the money that we will have to start paying out on that day? What are the differences between payable and promised benefits starting at that time?

Mr. SNOW. Well, in—if you go to 2028, you will have to come up with about $250 billion.

Mr. RYAN. In that year alone?

Mr. SNOW. In that year alone. This is the chart, if you can see it. This is 2018. Every year thereafter, you can see a huge Federal deficit being developed as a result of the shortfall between the inflow and the out-flow, and it can only be met in the ways you addressed.

Mr. RYAN. So, are the alternatives to either raise taxes, cut benefits, borrow more money or grow the rate of return coming to Social Security? Are those essentially our four alternatives?

Mr. SNOW. Those are the alternatives. Unfortunately, as we discussed earlier, higher growth rates for the economy as a whole do not fix this problem, because with the way the Social Security system works, they just get translated back into higher compensation levels to the retirees.

Mr. RYAN. So, is it correct to say that, if we do not have personal retirement accounts as part of the reform, then you would have to resort more toward either more borrowing, deeper benefit cuts or higher tax increases?

Mr. SNOW. I think it is safe to say that the situation that retirees face will be much worse if we do not have personal retirement accounts. Absolutely.

Mr. RYAN. Thank you.

Chairman THOMAS. The gentleman's time has expired. The gentlewoman from Ohio, Mrs. Tubbs Jones wish to inquire?

Mrs. JONES. Mr. Secretary, thank you for coming to our Committee this morning. My first question is, is it a fact that the tax cuts for just the top 1 percent of households, with average incomes of more than a million dollars, exceeds the cost of shoring up Social Security without any benefit cuts?

Mr. SNOW. Congresswoman, I do not know that. I would have to check on the facts of that. I do not have that readily available.

Mrs. JONES. Well, assume it for the purpose of my question. Would you please, sir?

Mr. SNOW. I will for the purpose of your question.

Mrs. JONES. Then that is the proposal that the Democrats are offering to shore up Social Security, that you take the money from those tax cuts, and they will pay for the Social Security costs, just so that the record is clear, that Democrats are offering a proposal. Let me go to this. It is in your statement. It says in the interests

of honesty and transparency. In the interests of honesty and transparency, Mr. Secretary, is it not a fact that the personal accounts that you propose are not like a 401(k) plan? Isn't it a fact that if I were to get to the point where I would get an annuity, I would get money from the personal accounts that you are proposing, that I would be forced to be put it into an annuity, I could not get a lump sum payment?

Mr. SNOW. Well, the lump sum option, I think will be available, where an individual can demonstrate that they will not outlive the anxiety.

Mrs. JONES. Mr. Secretary, in fact, that is not the proposal that is on the table. Every proposal that I have seen for the personal accounts says that it will be turned into an annuity, and an annuity cannot be directly passed on, you could not give it to your child immediately?

Mr. SNOW. Congresswoman, I think, perhaps, we have not made available all of the materials that we should, or you have not had a chance to see them. But, it is my understanding that the Administration proposal here does contemplate the opportunity for a lump sum payment once some means test is met, because you do not want people to take a lump sum——

Mrs. JONES. But you have to meet a means test. I do not have to meet a means test for my 401(k). I can take it and do whatever the heck I want to do with it. Right?

Mr. SNOW. Well, I am agreeing with you that——

Mrs. JONES. If so, therefore, I must meet a means test, it is not like a 401(k).

Mr. SNOW. Well, it is, and it isn't. It has some things in common with it and some things that are different.

Mrs. JONES. Mr. Secretary, if I have to meet a means test, I do not have the ability to take that money and do what I want to do with it. Correct? Yes or no, sir?

Mr. SNOW. Unless you meet the means test.

Mrs. JONES. You know what, I do not think you are responding to my questions appropriately. In the interests of honesty and transparency, answer my question, Mr. Snow. That you cannot, if you have to meet a means test, then the ability that I have to take my annuity is not the same as a 401(k). Yes or no, sir?

Mr. SNOW. Well, it is if you meet the means test.

Mrs. JONES. Okay. Mr. Snow, let's move on. I hope the whole world is seeing that you are not answering questions in the interests of honesty and transparency. Let me ask you also, part of the proposals, of the Government's proposals on Social Security are suggesting that African-Americans would fare better under the proposed changes than they do under current programs. Is that correct, sir?

Mr. SNOW. Yes, I think there has been some suggestion to that effect made. Yes. To that effect, yes, that both with respect to women and with respect to minorities, the current system works in some ways that one can question the fairness.

Mrs. JONES. On the other hand, it works in some ways that are in the greatest, best interest of African-Americans and women with regard to wage indexing, with regard to the survivor benefit and also with regard to the tenet from Social Security that, if I am dis-

abled, my children are able to get funds from my disability, or I die and my children are able to get funds from my disability, that I can never purchase in the open market because I do not have enough money. That is a fact, isn't it, Mr. Snow?

Mr. SNOW. Well, I think all of those facts depend on individual circumstances.

Mrs. JONES. Well, if we look at the income that women and African-Americans receive as compared to white men in this country, sir, it is clear that they make less money, and it is clear that they are often in the work force less—a shorter period of time than white men. So, therefore, the fact is, that under a disability or survivor benefit, most women and most African-American children receive a greater beneficiary from Social Security disability than they could ever receive from an annuity that they would attempt to purchase out in the world.

Mr. SNOW. Congresswoman, they are more dependent on it and, therefore, have a bigger stake in seeing it sustained.

Mrs. JONES. I thank you for your responses.

Chairman THOMAS. Does the gentleman from New York wish to be recognized?

Mr. RANGEL. Thank you. I just want to clarify the position of the Democrats as it relates to Social Security. The Democrats are anxious to put everything on the table in order to resolve this issue. When the leadership met with the President not too long ago, the President asked—and Mr. Secretary was there—the President asked us to hold our fire until such time as he presented us with a plan and not to be critical of it. The Treasury Department is saying that there are proposals and suggestions. But, so far we have not gotten a plan. So, there is no Democrat—of what Congresswoman Jones is suggesting, that these things on the Democratic table to respond at the time that is appropriate. But, I think the Secretary said he was there when the President requested of us not to be critical and not to come up—he did not say not to come up with anything, but at least to wait until he put these pieces together. That is what we are doing.

Chairman THOMAS. The Chair thanks the gentleman for the clarification. The record shows that the gentlewoman from Ohio is in favor of raising taxes in substitution of the President's program. The gentleman from Georgia, Mr. Linder wish to inquire?

Mrs. JONES. Mr. Chairman, I would like to object to your interpreting what my responses were, or what I said.

Chairman THOMAS. The record will speak for itself. The gentleman from Georgia has the time.

Mr. LINDER. Thank you, Mr. Chairman. Mr. Secretary, welcome. Nice to see you again. Isn't it true, that if we were to go and rescind the tax increase on the top 1 percent of the tax cuts, we would be increasing taxes?

Mr. SNOW. Absolutely.

Mr. LINDER. Isn't it further true that when we increase taxes we tend to slow the growth of the economy?

Mr. SNOW. Yes.

Mr. LINDER. Isn't it further true that when you slow the growth in the economy you cost jobs, reduce the revenues to the Federal

Treasury, and you reduce the revenues to the Social Security Administration?

Mr. SNOW. No question about it.

Mr. LINDER. Our Chairman has spoken some time ago, and recently, and I agree that trying to save this system predicated on workers paying for retirees is going to be difficult to do. We will have to look at a bigger picture. We are going to increase the number of retirees in 25 years by a hundred percent. We are going to increase the number of workers paying for them by 15 percent. Maybe we ought to look at a broader picture. Maybe just the payroll tax is insufficient to the challenge. But this structure of income taxes also, and I am going talk about something you and I have talked about, drains on our economy in other ways. We know that 22 percent of the price system represents a tax component. But it makes us very uncompetitive in the global economy. Add to that the VAT, when we export something, we are doubly less competitive. We know that we have somewhere in the range of $200 to $500 billion per year in just compliance costs. That is a huge tax burden on our economy. We now know that we have driven $6 trillion offshore because of the Tax Code, and to euro-dollar markets and to offshore financial centers. Do you have a working group in your Department looking at fundamental tax reform and tax simplification?

Mr. SNOW. Yes, we do, Congressman Linder, and we have for some time. We will share our research and analysis with the tax panel. Some of the tax experts are right behind me here who have done their best to give me an education on the options available. I am not sure what grade they give me, but at least I have been a diligent student.

Mr. LINDER. Could I have access to some of that research?

Mr. SNOW. Sure. We would be delighted to share it with you.

Mr. LINDER. Let me ask you one further question, and you may answer it in writing. Dr. Kotlikoff of Boston University has recently written a study that says that the unfunded liability over 75 years in Social Security and Medicare is $51 trillion. The Social Security Administration says the unfunded liability is about $13 trillion. Would you ask somebody to look at those two studies and, in writing, explain to me what the shortages are?

Mr. SNOW. Sure.

Mr. LINDER. Thank you, Mr. Chairman. I yield back.

Chairman THOMAS. Based upon the time saved on the Republican side, it is over 5 minutes, the Chair will call on the gentleman from Colorado, Mr. Beauprez.

Mr. BEAUPREZ. I thank the Chairman, and I thank the Secretary for being here for enduring this rather tortuous, sometimes, exercise. I think the gentleman from Ohio a moment ago hit on the key subject here. Simple question: Can we, I am paraphrasing, can we do a better job of Social Security in the future than the current system provides? At about, I do not know, 2042, I do not know if it is some other year, but in and around that time, I know I have got four children that I brought into this world that are going to reach retirement age; just a little bit before that and a little bit after that. I asked them that question. They said, “Dad, you had better do something better with the system in the future than it

currently provides or we are not going to have one." They get it, Mr. Secretary, and I think most people out there in the real word get it, too. We throw the word around: Unsustainable. I think it fits. I think it fits.

As luck would have it, yesterday, in my office, I had four representatives of PERA, that is a public pension fund in Colorado, the 23rd largest in the country I am told, that represents public employees, that is what it stands for, Public Employees Retirement Association. It has got municipal workers, State troopers, teachers—typically our teachers belong to it, State employees. It has about 361,000, I think, members, again the 23rd largest pension fund in the Nation, I am told, public pension fund. They seem to understand what a better plan might be, because the message they gave me loud and clear was: Do not mess with our retirement account. There is a reason. Because it is theirs. It is a personal account. They own it. They can transfer it. They enjoy the benefits of compound interest with it.

Now, question for you. I suppose there is one other way we can do this. We have heard that you can cut benefits dramatically. Don't want to do that. I submit that no Congress will. We can raise taxes rather dramatically as well. Difficult choice as well, with serious economic implications. Or we can whack away at the other things that the Federal Government spends money on, like National Defense or Homeland Security or our intelligence community or affordable housing or our veterans or we can get around to Education and Medicare and Medicaid, but I think Congress will find that very difficult to do. In fact, I think, if we face the real music, Medicare and Medicaid, our other large entitlements, we are headed to a very serious day of reckoning with our major entitlements. Isn't that what we are about here, Mr. Secretary, is simply, as the Gentleman from Ohio to my right, a moment ago pointed out, aren't we challenged with, can we do a better job than the wonderful job that those who came before us did in providing a benefit, but can't we do a better job?

Mr. SNOW. That is the whole question, Congressman. You put it well. He put it well. I think we can. But the option to do that gets diminished as we put it off, as you put it off, as Congress puts it off. So, the sooner you act, the more options that are available.

Mr. BEAUPREZ. You held up a page earlier that I think I have seen before, that simple graph. Doesn't that show that, as we go forward into the future, if we do not fix the system somehow so it is sustainable, then those funds, unless we raise taxes or dramatically reduce the benefits, we are going to have to find them somewhere, and the only other somewhere would be to essentially reduce or eliminate these other programs of the Federal Government, parts of the Federal Government that we have become very dependent upon.

Mr. SNOW. Congressman, you have stated it well. In fact, cutting them will not be enough. If this trend continues the entire budget of the United States will be absorbed by Medicare, Medicaid and Social Security.

Mr. BEAUPREZ. I thank you and the President for having the courage to bring forward what obviously is going to be a difficult

question, but a necessary question, for us to answer. Thank you, Mr. Secretary.

Chairman THOMAS. Does the gentleman from California wish to inquire?

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, could you just help me in clarifying the amount of the deficit in this budget. On one figure, I see $427 billion. Is that——

Mr. SNOW. That is the number. That translates into the 3.6 percent of GDP.

Mr. THOMPSON. If we add up all of the things that we have been talking about, for instance the $754 billion to pay the transitional cost to privatize Social Security; the extension on the AMT of $25 billion; the war supplemental of $80 billion; and the fact that this budget borrows $160 billion from Social Security, we have a real deficit of about $1.2 trillion, $1.3 trillion?

Mr. SNOW. Well, Congressman, the deficit is as reflected in the document that you have from OMB.

Mr. THOMPSON. Thank you. Can you tell me, does that include, and I think Mr. Tanner, my colleague from Tennessee, brought this up earlier, the amount that we borrow from foreign governments, from foreign countries? Specifically, over the course of the last year—you talked to me last year when I was on the Budget Committee. This year the venue is different but the topic is the same. Are growth and debt to foreigners, we have borrowed $139 billion more from Japan; $43 billion more from China; and $15 billion more from the OPEC nations. Is this included in that?

Mr. SNOW. Oh, sure. All of the borrowing of the United States will be reflected.

Mr. THOMPSON. Thank you. Then it has been discussed here today that the full faith of our U.S. Government provides this guaranteed benefit to anyone who is collecting Social Security benefits today. That has been brought out a number of times. So, our Government stands behind, even if we are borrowing money from the Social Security trust fund to run our everyday government operations as we just talked about, our Government stands behind that borrowing, that obligation to those on Social Security?

Mr. SNOW. Yes. The Government stands behind all of the obligations. Yes, it does.

Mr. THOMPSON. After the privatization, and money is taken out of an individual's Social Security account and put into the private sector, the private accounts, if there is any loss in that, does the full faith of our Government stand behind that? Or is that just money that will be lost from the Social Security benefactor?

Mr. SNOW. Congressman, our Government stands behind with the full faith and credit that surplus that is currently in Social Security, the IOUs.

Mr. THOMPSON. That is not my question. If you take money from my Social Security account and invest that in the private sector, and that investment loses, does the full faith of the Government still stand behind that, or do I get the amount from the loss?

Mr. SNOW. Well, you—this is a personal account. We did not propose to guarantee it, because if you guarantee——

Mr. THOMPSON. So, there is no guarantee?

Mr. SNOW. That is right. I would not propose to guarantee it.

Mr. THOMPSON. As pointed out by the gentleman from North Dakota, the private accounts themselves will not be enough to sustain the program. So, we can realize the risk in regard to the private portion, and we can also expect to see some other manipulation of whatever is left over.

Mr. SNOW. Well, yes. The President, when he talked about that, indicated that there were some options that needed to be considered by the Congress. He invited you to come out with others. But he also——

Mr. THOMPSON. One last question I want to get before the light turns red. This budget also proposes eliminating 150 programs to realize some considerable savings. But last year the budget that you proposed to us suggested we eliminate 65 programs and save $5 billion. In reality, we eliminated 5 programs and saved about $290 million. Believe me, I think if there are ways to become more efficient or get rid of programs that aren't doing what they are supposed to be doing, we should do that, and $5 is a good savings. But how realistic is it that we can get rid of 150 programs given what happened last year when you proposed the modest 65-program reduction?

Chairman THOMAS. The Chair believes that is an excellent question to respond in writing, because, frankly, any kind of a response in the 10 seconds left wouldn't do it justice, and we do need to examine that.

Mr. THOMPSON. Mr. Secretary, thank you.

Mr. SNOW. I would be happy to respond.

Chairman THOMAS. Does the gentleman from Indiana Mr. Chocola wish to inquire?

Mr. CHOCOLA. Yes. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here today. Mr. Secretary, I have the privilege of having some ads run in my district right now that leave the impression that Social Security benefits will be cut significantly for current retirees. Don't you think it is safe to say that, under the principles that the President has offered, or really under any plan that is offered right now, that those about to retire and current retirees benefits will be safe and secure?

Mr. SNOW. Absolutely. We have tried to make that just as clear as possible, reiterating over and over and over again that Social Security benefits won't be changed for anybody 55 and over.

Mr. CHOCOLA. In your opening comments, you pointed out that the most powerful force in the universe is compound interest. I would offer the argument that the second most powerful force in the universe is the power of ownership. I have seen the magic of ownership in personal accounts, having run a business with a 401(k) and profit-sharing accounts, and seen people retire after a great career having built wealth and a nest egg, that they really achieved retirement security. One of the criticisms I have heard of personal accounts is that the administrative fees would eat up the return. Our experience, with about 1,000 people in our account, was less than one-half of 1 percent administrative fee. The TSP has one-tenth of 1 percent administrative fee. Do you have any idea on personal accounts what we might see?

Mr. SNOW. Yes, Congressman. We have looked into that and feel confident that the personal accounts will have an administrative fee no higher than about 30 basis points.

Mr. CHOCOLA. Just finally, in 2018, if we do nothing, we won't have to worry about raiding the Social Security Trust Fund anymore, will we?

Mr. SNOW. No. The trust fund will be on a straight downward course which exhausts all the obligations by 2042.

Mr. CHOCOLA. In other words, it would exacerbate the deficit?

Mr. SNOW. Well, absolutely. In that chart that we show, that is how much it gets exacerbated in each of those years, reaching by—just to take the year 2042, about 400 billion added to the deficit in that year.

Mr. CHOCOLA. Thank you, Mr. Chairman. I will yield back.

Chairman THOMAS. The Chair is pleased to say that there is 2 minutes and 30 seconds returned back. I know that I indicated to the Secretary that we would end at 1:00. We have two additional Members who I assume wish to inquire, and if we could be mindful of the fact that we are overtime and that it was possible for other Members to return a portion of the time, the Chair would inquire if the gentleman from Connecticut wishes to ask questions?

Mr. LARSON. Thank you. Yes, I would.

Chairman THOMAS. The gentleman is recognized.

Mr. LARSON. Thank you, Mr. Chairman. What an honor to serve with you, and the distinguished Member from New York Mr. Rangel, and my colleague Mrs. Johnson. Mr. Snow, thank you for your service to our country. Let me cut to the chase. I am going to pick up where Mr. Rangel began. What is on the minds of a number of my constituents is a lot like the conversation went with Mr. Brady. They have questions that they want to ask, and I will pose these in four quick questions, and then you can answer them in writing. That will allow time.

The first question that is on the minds of a number—people who meet with my mother, they are called The Golden Girls, and they are from the greatest generation. What they wonder is why we just don't pay the money back. They are concerned about all this talk about surplus and deficit, and they have been a generation that witnessed a great deal of sacrifice. They want to know in plain language why don't we just pay that money back that we owe.

Secondly, they want to know, and it is especially important given Mr. Rangel's concerns about—and mine and others about the Social Security, the transition costs not appearing in the budget, the cost of the war currently and ongoing not in the budget. They want to know is the war being funded with the Social Security surplus? Because, in their generation, they sacrificed, and there were funds that were created especially, and they specifically went on drives and they paid as they go for this effort. They see this as contrary to all the kind of sacrifice that they had.

Thirdly, and the question was posed by many Members here about thrift savings and the idea that—even as was mentioned before about possibly with the AARP sitting down to make sure that these go into safe accounts if the President's plan were to be followed. Well, the question is why don't we take the existing account of Social Security within the context of Social Security and apply

those same financial tools without having to take it outside of the system and privatize it? Wouldn't that give them greater assets and greater return with a greater amount of money? Those are the questions that my constituents pose. The final question is more one of a little bit—I know that there is no discussion of politics and ideology, but the question that they have is it seems to them, at least a generation that believed in the common wealth going toward the common good, that the ownership society smacks of a "me society," and where we are exalting the individual at the expense of the collective good. I know that that is somewhat philosophical and ideological, but I would appreciate your comments. I thank the Chairman.

Chairman THOMAS. I thank the gentleman very much for the expeditious use of the time. The Chair would ask the gentleman from Illinois if he wishes to inquire for a modest period of time.

Mr. EMANUEL. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. I will be real quick. I think it is interesting that since a lot of projections and discussions have been about the year 2018 and 2042, it is on the day that you were here to talk about the budget that last year we were told that prescription drug bill would cost about 396—over 10 years, and today's budget submits that it costs $395 billion over 5 years, and over a 10-year period of time it will cost a total of $800 billion. So, just last year, 1 year away, not 2018, not 2042, the projections of those in this room was that it would only cost 400 billion, and you were off by only 400 billion. So, when it comes to one's credibility about projecting into 2018 or 2042, just last year one's credibility is not exactly what I would say rife with a lot of heft. It chopped through. If you are looking for a crisis, I would suggest you look at a crisis that was self-made in just last year, because the crisis exists in what has happened to Medicare by weighing it down, and those of us who told you it was going to cost twice as much were right. This hearing was about the budget. You submitted a budget with a prescription drug benefit plan that over 5 years costs what you said it was going to cost in 10 years, and you have yet to correct it, and you put more greater weight on Medicare because of foolish politics.

Second, as it relates to those who wanted to quote President Clinton, I would like to remind them that it was President Clinton who said, save Social Security first. He created three surpluses in a row and was part of creating an economy that was dynamic, which is highly different from the type of economy that we have, which has 4 years in a row of record deficits. If you are looking for a crisis to help people save, I believe we have a savings crisis, not a Social Security crisis, a savings crisis where 80 percent of the employees of small businesses have no employer-based retirement plan, unlike you did at CSX that did have a savings plan in addition to Social Security. Forty percent of the American people rely on Social Security for their only retirement. The idea that we would take that guaranteed benefit of their retirement benefit and trade it for a guaranteed fee for Wall Street is not a trade worth making, as somebody who has spent little time on Wall Street. I look forward to discussing the budget as it relates to any entitlements. But the notion that we are going to talk about a crisis and

look at one that was submitted today that was $400 billion off the mark just last year so one's projections about what the future will bring is highly susceptible——

Mr. SNOW. Congressman, thank you. If I could just make one comment. There is, it seems to me, maybe you would agree, a big difference between trying to forecast take operates take-up rates on prescription drugs, which is at the heart of that issue, and the demographics of the country, which are known to a much higher degree of certainty.

Mr. EMANUEL. Mr. Secretary, not only—and I know we are all sensitive here to time. As Mr. Greenspan said in the Budget Committee last year and others have said, the real issue we have and the challenge we have is in Medicare, not in Social Security. Thank you.

Mr. SNOW. That is not to deny, though, and I think Mr. Greenspan would agree, there is a serious sustainability issue and therefore a serious issue for the future of this country implicit in Social Security as well.

Mr. EMANUEL. Again, I want to be sensitive to your time and the Chairman's time, and you have been very generous. Unbelievably, Mr. Chairman. But the truth is the one that comes front and center that we are going to hit on is Medicare. We have created a bigger burden for that problem. To the issue of Social Security, the issue in front of the American people is that when we used to have employer-based savings, individual savings, and Social Security, you are knocking two legs out and trying to have that stool stand on one leg, and you are doing it in a risky way on Wall Street. If the economy is growing by 1.8 percent as you projected, and you think somebody on an individual account is going to get 5 to 6 percent, my slight recommendation is they maybe should be setting up a hedge fund, not an individual retirement company, because when the economy is growing 1.8 percent, the only way you make that type of return is if you are shortening it.

Mr. SNOW. Could I make just one response to that? This could go on. The 1.8 is the growth of productivity. It is the growth of productivity per capita. The Social Security trustee actuary has found that there is a high correlation between productivity growth per capita and equity markets and capital markets.

[The prepared statement of Mr. Emanuel follows:]

Opening Statement of The Honorable Rahm Emanuel, a Representative in Congress from the State of Illinois

Mr. Chairman, the President's budget is much harder on the middle class than on the deficit. First, he proposed shredding the safety net of Social Security. Now, he wants to pull the rug out from under the middle-class.

When it comes to cutting the deficit, President Bush has declared, Women, children and middle-class families first.

If this were the Superbowl, the President's budget would be flagged for unnecessary roughness on middle-class families.

The President's FY 2006 budget proposal includes:

- $4.3 billion cut from 48 education programs;
- $960 million cut in direct student loans;
- $540 million cut from police grants;
- $361 million cut from clean water programs;
- $355 million cut from Safe and Drug Free Schools;
- $225 million cut from the Even Start literacy initiative;
- $215 million cut from firefighter grants;

- $200 million cut from job training programs;
- $100 million cut from community health centers;
- $100 million cut from land and water conservation;
- Neglecting the cost of $774 billion 10-year cost of reforming the Alternative

Minimum Tax;

Following four consecutive budget deficits—including the last three *record-breaking* deficits—the Administration's economic policies should focus on cutting the deficit, not cutting middle class priorities.

With his tax cuts continuing to favor the wealthiest individuals and special interests, middle class families deserve more balanced tax and spending priorities to help them keep up with rising costs in health care, education, and retirement.

Middle-class families deserve more than accounting gimmicks, budget sleight of hand and cuts to critical programs to pay for unnecessary, unwise tax cuts. The Administration should scrap this budget, start over, and work with the Congress to put this government back on the path of fiscal responsibility.

Chairman THOMAS. The Chair would recognize the gentleman from New York.

Mr. RANGEL. I just want to thank the Secretary, especially in light of the harsh questions that we felt compelled to ask, because, as you know, the President said wait until he has a plan, and we don't have that plan, so that there is no Democratic position until the President comes forward with something. We all have to admit that this particular subject matter, as with tax reform, it screams out for a bipartisan approach. So, I just do not want you to walk away thinking that we did not believe there was a problem. We know there is a problem, and we thank the President for not saying there is a crisis. Thank you.

Mr. SNOW. I thank you, Mr. Rangel.

Chairman THOMAS. The Chair would also like to thank the Secretary. Of course the 1.8 percent is one line that the trustee has offered. There are two others. But, most importantly, the President has decided to assist us in being out front in Social Security. He assisted us in being out front in Medicare in the last Congress. We were successful. We look forward to at least as much bipartisan cooperation in dealing with Social Security as we had with Medicare. If there are no further questions, the Committee stands adjourned.

[Whereupon, at 1:13 p.m., the hearing was adjourned.]

[Questions submitted from Messrs. Rangel, Stark, Herger, McDermott, Tanner, Becerra, Doggett, Thompson, and Larson to Secretary Snow, and his responses follow:]

Question Submitted by Representative Rangel

Question: Mr. Secretary, I appreciate your comments during the hearing that indicated the full faith and credit of the United States stood behind the bonds held by the Social Security Trust Funds. However, at other points in the hearing you agreed with questioners who disparaged those holdings as IOUs and spoke as if they were somehow different than the bonds sold to China and other overseas investors.

It is true that the bonds are not cash and that the Federal Government will have to either raise taxes, cut spending, or increase borrowing in order to redeem them and repay the Trust Fund in order to finance future benefits. But, even if we did not have to redeem bonds and repay the Social Security Trust Fund after 2018, we will still run large deficits in those years under current policies. Isn't it true that the same actions—raising taxes, cutting spending, or increased borrowing—that will be needed to redeem the bonds held by the Social Security Trust Funds, will also be needed to repay the bonds currently being sold to overseas investors?

Those bonds being issued today are being used largely to finance the President's policies, which have reversed the $433 billion surplus that CBO projected for this year when the President took office, and instead produced a deficit of over $400 billion. Much of the bonds being bought by overseas investors today are being used to finance tax cuts and the war in Iraq. Why are they, and our obligation to repay them, somehow different than the bonds in the Social Security Trust Fund?

Response:

First, we need to clarify what the sources of change have been in the fiscal outlook. The U.S. economy had a recession which began in March 2001, then endured the terrorist attacks, then faced the revelation of corporate wrongdoing. These unforeseen factors of course had a large impact of the revenues of the Government.

Additionally, American policymakers wisely increased spending on defense and homeland security to win the war on terror. This also increased the deficit, but was an absolute necessity.

By proposing tax cuts in 2001 and 2003, the President sought to increase the economy's prospects, both short and long term, by removing some of the barriers in the Tax Code to increased work, savings and investment. Since the enactment of those tax cuts, the economy has grown at almost 4% per year and the American people have created 3 million jobs.

The markets have recognized that these deficits are short term, are not large relative to the economy, and that the tax cuts, if made permanent, will spur long term growth. Market set interest rates have stayed at moderate levels, and net interest on the debt last year (the Government's annual cost of borrowing) was the lowest in 30 years.

As to the similarity between the publicly held debt and Treasury securities in the trust fund, it is accurate to say that the publicly held debt owned by domestic and foreign investors must be redeemed by either rolling over the debt, increasing tax revenue, reducing spending below what it could otherwise be, or some combination of the three. In that sense, it does not differ from the debt held by the Social Security Trust Fund.

However, it is precisely because the government must generate funds in order to redeem debt that does not, in and of itself, help the government to fund the Social Security system. To the extent that a bond in the trust fund is an asset to Social Security, it is a debt to the remainder of the Federal Government.

That's why it's time to strengthen and modernize Social Security for future generations with growing assets that workers can control, that they can call their own—assets that the government cannot take away.

If the President's proposals are adopted, workers who choose PRA's would personally own the assets within those accounts.

While Social Security can continue to pay scheduled benefits until the trust fund is exhausted, it would be irresponsible to wait until the exhaustion date to modify the program to make it solvent. The longer reform is delayed, the more difficult it will be to make Social Security solvent.

Question Submitted by Representative Stark

Question:

The FY 06 budget includes $74 billion/10 for tax credits to purchase either "traditional" individual coverage or a high-deductible health plan (HDHP) with an HSA. Yet, even this level of spending leaves significant financial gaps for these families.

How much of the $74 billion do you estimate will be spent on each of these options?

How many people do you estimate will enroll in each of these options?

How many of those enrolled do you estimate were previously uninsured and what is the data source for these estimates?

Current law requires deductible limits to be a minimum of $1,000 for an individual, $2,000 for a family, and a maximum of $5,000 for an individual and $10,000 for a family. However, many plans are not clear about what is covered, which leads to spending that does not count toward either the deductible or the out-of-pocket limit. How will consumers know in advance what out-of-pocket costs do and do not count toward their policy?

In the non-group market, can issuers use medical underwriting to refuse to sell a HDHP? Can they charge certain applicants higher premiums, based on their health history? Can they exclude certain body parts or conditions, based on the applicant's health history or history of someone in

their family? If so, how will people be assured there is an affordable product available on the open market?

Please provide examples that would fall under the IRS' definition of a "qualified medical expense" for HSAs. For example, how are prescription drugs treated? Would air filters or other non-medical devices be covered?

The President claims that HDHPs will control costs.

What are your underlying assumptions for this policy?

What are your estimates of necessary vs. unnecessary spending by individuals currently?

How do you define unnecessary spending?

How much will aggregate health care spending be reduced as a result of high-deductible plans?

If you project aggregate savings, how much will come from underuse of services vs. a reduction in prices vs. "more careful shopping" by patients? What are your data sources and assumptions for making such estimates?

What effect would unmanaged chronic conditions or deferred treatment of illnesses have on future Medicare costs?

How many HDHP policyholders are projected to actually use their benefit (vs. simply pay premiums for coverage they cannot afford to access)?

Previous independent analyses from the Academy of Actuaries and others have indicated that widespread adoption of HDHPs/HSAs or similar policies would dramatically increase premiums for traditional insurance. What does the Administration assume happens to premiums for traditional policies?

Administrative costs for the Health Care Tax Credit are approximately $35 million per year, while payments for insurance coverage are $62 million. It's a remarkably inefficient system to help people maintain coverage. Yet, enrollment in the Health Care Tax Credit program is low, at just over 13,000 individuals. Given the additional complexity of income verification, identification of eligible persons, and the much larger number of potential enrollees, can the IRS realistically implement this program by 2006? If so, how much does the IRS plan to spend on administration of the new tax credit proposals? How much will outside contractors receive?

Advanceable credits are based on the last year's income tax filing. If income increases during the year, will the IRS make an attempt to collect the overpayment? If so, what is the administrative cost associated with this activity? Is it reflected any where in the budget?

Because HSAs are exempt from all taxes, including payroll taxes (e.g., contributions by employers are not taxed), they reduce funding for the Medicare and Social Security trust funds. How much does the Administration estimate is lost to each Trust Fund as a result of (1) current law and (2) adoption of the President's HSA proposals in this budget?

The budget provides $28.5 billion to allow individuals an above-the-line deduction to offset the cost of premiums for a high-deductible health plan sold in conjunction with an HSA.

How many people do you estimate will take this deduction?

What is the estimated take-up by AGI and/or income tax bracket?

How many people taking this deduction were previously uninsured?

Why is the President proposing a special additional tax break for these plans when even conservative analysts have indicated that the extra tax preference will distort the health insurance market?

As you are well aware, many states are facing tight budgets, and as a result are being forced to cut back on Medicaid, S–CHIP, and other programs that help vulnerable populations. Yet, the President's health tax proposals and other tax cuts in the budget will decrease state revenues. Will you please specify the effect the President's tax proposals will have on state budgets?

Response:

Why is the President proposing a special additional tax break for these plans when even conservative analysts have indicated that the extra tax preference will distort the health insurance market?

The credit is designed to provide an incentive to purchase catastrophic coverage while giving consumers flexibility in choosing the kind of plan that best meets their needs. The HDHP combined with an HSA provides individuals with an additional choice. Given the uncertainty of how people will choose between the myriad of plans, we do not have an estimate of how many will choose the HSA option versus the non-HSA option, although it is likely to be small.

The Administration strongly supports allowing consumers to choose the plan that best fits their needs. One aspect of ownership and choice requires that individuals take the responsibility for reading their plan documents and checking with their doctors to become informed about what is paid for by insurance as well as to become informed about the most effective way to take care of their medical needs.

Under current law, states regulate the non-group market. Depending on the state law, HDHP issuers can use medical underwriting, charging some applicants higher premiums and rejecting other applications. Without underwriting, insurers would have to charge higher premiums discouraging many individuals from obtaining any coverage. For those with the highest risk, many states have high-risk pools that cap premiums or partially subsidize coverage.

Generally, as provided under the statute, qualified medical expenses for HSA purposes are qualified medical expenses under section 213(d) of the Internal Revenue Code—amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body. Thus, the costs of prescription drugs would generally be a qualified medical expense. For purposes of HSAs, qualified medical expenses are in some ways broader than those expenses allowed as itemized deductions, in that nonprescription drugs may also qualify as a reimbursable expense. At the same time, the definition is somewhat narrower, in that except for certain situations, health insurance premium costs may not be paid by an HSA.

You also ask about whether amounts paid for an air filter or other nonmedical devices would be qualified medical expenses. This issue existed prior to the enactment of the HSA law; the IRS and the courts have been addressing this issue with respect to the itemized medical deduction since its enactment, and those rulings and decisions are generally controlling for purposes of HSAs.

Whether or not a particular expense that was not medical on its face would be allowed as a medical expense is a facts and circumstances determination. Under the regulations relating to section 213 in existence prior to the enactment of HSAs (and still applying for purposes of HSAs as well as the medical expense deduction), a capital expenditure which is related only to the sick person and is not related to permanent improvement or betterment of property, if it otherwise qualifies as an expenditure for medical care, shall be a qualified medical expense; for example, an expenditure for an air conditioner which is detachable from the property and purchased only for the use of a sick person. (The IRS has issued a number of rulings addressing this question with regards to air conditioners.) On a related matter, the IRS has ruled that a vacuum cleaner purchased by an individual with allergy to household dust would is not a medical expense, and the Tax Court has ruled that the cost of installing a dust elimination system in a home is not deductible as a medical expense.

Low deductible health insurance that covers smaller more routine spending as well as coverage for catastrophic events provides a moral hazard to consume medical care that may be of little value because someone else is paying for it. In addition, coverage for smaller more routine expenses increases health insurance premiums. By separating smaller more routine expenses from catastrophic coverage, premiums are reduced and individuals are given the right incentive to be cost conscious on the smaller ticket items. As a result, each individual together with their doctor will decide what care is necessary. On the other hand, some individual may receive better catastrophic coverage because of the out-of-pocket limits. These limits could potentially help some individuals with high cost chronic conditions to receive better coverage than under other products.

True insurance is designed to protect against very high cost low probability events. Individuals benefit from insurance even if they do not have a high cost event in a particular year, just as homeowners benefit from insurance even when their house does not burn down.

HDHPs can also cover preventive care before the deductible is met. Insurers have an incentive to cover preventive care that is medically effective but not care that is of questionable value.

As part of the estimation process, the Treasury department uses health insurance premium forecasts provided by the Office of Management Budget.

Although premium increases have implicitly been taken into account with a number of other interacting factors in the analysis, they have not been explicitly estimated. The potential for premium increase or decrease depends upon the specifics of the HDHP/HSA rules as well as the insurance markets, nongroup or employer, and the structure of alternative choices. It is too soon to tell the result of HSAs.

We have been learning much about the administration of tax credits from the HCTC program experience, and this experience will be enormously helpful in implementing a new tax credit for lower income individuals. Under the budget proposal,

the advance payment component of the new credit would not become operational until July 2007. Given the knowledge and experience we have from the HCTC, we believe that July 2007 is adequate time to prepare for the new tax credit.

The administration does not at this time have a formal projection on the administrative cost for the proposed tax credit. We are still refining the HCTC operations to be more efficient, and we believe that these improvements will be transferable to the new program. Finally, you ask about the potential use of contractors for the new tax credit. This will depend very much on the final structure of the new credit. For the HCTC, because of the newness and the uniqueness of the concept and the short timeframe for implementation, it was essential that we recruited contractors to provide the necessary skills and services to meet the legislative requirements. However, we will have to consider the administrative costs and approach for the new credit as the mechanism is designed.

The credit amount if taken in advance is determined by the previous year's income so there is no need to make adjustments for current year income.

Although the exemption of HSA from payroll taxes reduces funding for the Medicare and Social Security trust funds, reductions in employer contributions due to lower premiums and a shift in compensation to taxable wages has an offsetting effect. Overall, the changes are not expected to materially affect the trust fund balances.

The budget provides $28.5 billion to allow individuals an above-the-line deduction to offset the cost of premiums for a high-deductible health plan sold in conjunction with an HSA.

Although the proposal will increase coverage, the proposal also changes the health care insurance market in two key ways. First it provides a tax preference for nongroup insurance. Unlike self-employed individuals and individuals who are covered by employer-provided health plans, individuals purchasing nongroup health insurance generally do not receive favorable tax treatment. Providing tax preferences in the individual market will give many individuals wider choice of affordable health insurance. Many other individuals, particularly those who work for small employers, do not have any tax preferred health insurance options under the current system because their employers cannot afford to offer coverage. The proposal will make insurance more affordable for these individuals. Secondly, by linking the tax preference to high deductible health insurance, the tax preference encourages consumers to be more cost conscious buyers of health care.

We are unable to determine the effect of the President's tax proposals on state budgets. We would note that Federal tax proposals generally will impact both state receipts and state spending. For example, Federal budget proposals that increase health coverage for currently uninsured individuals reduce potential demands for health benefits from state programs. Also, as noted above, the Federal tax preference for HSAs will increase, not decrease, the Medicare and Social Security receipts as lower premium costs for employers tend to shift compensation to taxable wages. This shift would increase taxable wages for purposes of State income taxes.

To the extent that States, as many do, rely on the Federal income tax law as a starting point for State taxable income, States are free to (and, in the past. often have) adjust the State tax base by rejecting some Federal inclusions or deductions or incorporating additional changes. Because of these potential adjustments to State tax bases, we cannot predict the impact of Federal budget changes on the State budgets.

Question Submitted by Representative Herger

Question: Mr. Secretary, the Administration's budget includes a provision that would impose an excise tax on non-profits that do not enforce the easements that they hold. We have recently seen a number of articles in the *Washington Post*—**one entitled "Loophole Pays Off on Upscale Buildings"—that raise great concerns about tax abuses relating to conservation easements. It is my understanding that the Senate Finance Committee is considering a more aggressive approach to stop this abuse and the Joint Committee on Taxation recently included in its report** *Options to Improve Tax Compliance and Reform Tax Expenditures* **a proposal that would disallow any charitable deduction taken with easements relating to a personal residence. Do you have a view on the Joint Tax Committee's recommendation and would Treasury consider such an approach to clamp down on tax abuses relating to conservation and facade easements?**

Response:

The Administration believes that the current law policy of encouraging gifts of restrictions on real property that protect ecologically sensitive lands and preserve historic properties is a good one. However, we share many of the concerns expressed by the Joint Committee on Taxation in its report. As you mention, examples of flagrant abuse of the tax benefits of donating conservation and facade easements have been reported in the press in the past year, most involving inflated deductions and phony appraisals.

The Administration's budget proposal would address non-compliance by imposing a penalty on a charity that fails to enforce a donated easement. The penalty would be based on the appraised value of the easement. An organization that accepts a donated conservation easement has a duty to monitor and enforce the restrictions for which a charitable contribution deduction was allowed. We will continue to consider the JCT proposals in our effort to balance the important goals of preventing abuses and encouraging easement donations that preserve nature or heritage, especially in areas not protected by local zoning.

The Internal Revenue Service also is taking steps to address the abuses under current law. In Notice 2004–41, the IRS warned taxpayers that taxpayers claiming improper easement deductions face a disallowance of the deduction and possible penalties. The IRS also plans to revise tax forms and instructions to provide more detailed instructions on proper valuation of donated easements and to require additional reporting about these gifts.

Questions Submitted by Representative McDermott

Question: When the actuaries at Social Security estimate the system's solvency they provide a range of estimates, once of which relies on a prediction that our Gross Domestic Product (GDP) will rise by an annual rate of 1.8 percent. When was the last time GDP grew only by 1.8 percent? Is there any 10-year stretch in our history in which our economy grew only by 1.8 percent? If GDP grew by 3 percent each year, how long would Social Security be able to pay current benefits without changes to law? If the system could not, at some point, pay current benefits without changes to law if GDP grew by 3 percent per year, how much money would need to be injected into the Social Security Trust fund to ensure solvency for 75 years, or forever?

You mention several times in your testimony that our economy is growing, is strong, and is the envy of the world. In fact, you even say that the reason we have a record high trade deficit is because our economy is growing too fast, compared to the rest of the world. The Federal Reserve raised interest rates for the sixth straight time last week to curb inflation by making sure the economy doesn't grow too fast. Why do you insist that the economy needs stimulus and needs to grow through further tax cuts when the Federal Reserve insists the economy needs to slow down? Please explain why these are not conflicting policies.

Response:

You mention several times in your testimony that our economy is growing, is strong, and is the envy of the world. In fact, you even say that the reason we have a record high trade deficit is because our economy is growing too fast, compared to the rest of the world. The Federal Reserve raised interest rates for the sixth straight time last week to curb inflation by making sure the economy doesn't grow too fast. Why do you insist that the economy needs stimulus and needs to grow through further tax cuts when the Federal Reserve insists the economy needs to slow down? Please explain why these are not conflicting policies.

First of all, I'd like to restate the problem. It is not that the U.S. economy is growing too fast, but rather that other major economies are growing too slowly. For example, in the fourth quarter of last year, while our economy expanded at a healthy 3.8 percent annual rate, the economies of three of our G–7 partners (Japan, Germany, and Italy) were actually in decline.

While I don't want to speak for the Federal Reserve, I don't believe they are trying to slow the economy down. They have repeatedly characterized recent increases in the Federal funds target rate as a move from stimulus toward a neutral rate, not one which restrains growth. Chairman Greenspan, in his recent Monetary Report to Congress, said he still regarded interest rates as fairly low. Now that the economy is on solid footing, monetary policy accommodation can be removed.

The goal of the Administration's fiscal policy is the *permanence of existing tax relief*—not additional stimulus. Many important provisions of the tax relief passed in the past several years are scheduled to expire between 2007 and 2010. Among the

expiring provisions are marriage penalty tax relief, the current more generous child tax credit, reduced marginal tax rates, lower taxes on dividends and capital gains, and estate tax relief. We want to make sure these provisions continue to benefit our economy in the years to come. If these provisions were allowed to end, as is required by current law, it would amount to a series of tax *increases* that would be a serious drag on real growth.

Real GDP growth equals the growth of hours worked plus the growth of real GDP per hour worked (productivity). As shown in the Table below, relative to the 3.3 percent annual rate of real GDP growth experienced during the 8-year period 1995 to 2003, the slowdown in real GDP growth projected in the 2004 trustee Report (TR) for the 2016–80 period is about half because of lower growth in hours worked and about half because of lower productivity growth relative to recent levels.

Real GDP Growth = Hours Worked Growth + Productivity Growth

	Annual Growth Rate		
Time Period	**Hours Worked**	**Real GDP Per Hour Worked**	**Real GDP**
1948–74	1.18	2.81	4.00
1974–95	1.65	1.21	2.86
1995–03	0.91	2.36	3.27
2003–15*	0.96	1.81	2.78
2015–80*	0.24	1.60	1.84

*Projected in the 2004 TR.

The projected slowdown in the growth of hours worked reflects the retirement of the baby boom generation. There is some debate about the extent to which individuals at retirement age may continue to work in some capacity, but the larger question is whether the productivity growth assumptions are too pessimistic, and how changes in those assumptions would alter the outlook for Social Security finances.

As shown in the Table above, productivity growth averaged only 1.2 percent between 1974 and 1995, but has averaged 2.4 percent between 1995 and 2003. The trustees have been slowly raising projected productivity growth over the past several years in response to the persistence of the recent pickup in productivity growth. The ultimate productivity growth assumption was raised to 1.5 percent from 1.3 percent for the 2000 TR, and was raised to the current 1.6 percent assumption starting with the 2002 TR. This assumption is roughly consistent with the most recent forty years of historical experience surveyed in the trustees' report.

The 2004 TR estimates that a 0.5 percentage point increase in productivity growth would reduce the 75-year actuarial imbalance from 1.89 percent of payroll to 1.35 percent of payroll, and would delay the insolvency date by 6 years. An extrapolation of this finding to a 0.8 percentage point increased in productivity growth that would bring the ultimate assumption to the level experienced for 1995–2003 suggests that the actuarial balance would be reduced to about 1 percent of payroll. The insolvency date for this case cannot be reliably extrapolated.

However, the 75-year projections are an extremely misleading indicator of the effect of productivity growth on Social Security's finances. Under current law, initial Social Security benefits tend to grow with economy-wide average real wages.

Hence, a sustained increase in productivity growth would result in an immediate increase in payroll tax revenue that is followed much later by increased benefit payments. The 75-year scoring window captures a much larger share of the increased revenue than it does of the increased benefit payments.

Beyond 75 years, a sustained increase in productivity growth does not significantly improve Social Security's finances.

The trustees' report contains a stochastic analysis that shows how the future might be different from current projections. This year's analysis shows a 95% probability that the program will enter into permanent cash flow deficits some time between 2013 and 2023.

Questions Submitted by Representative Tanner

Question: At the hearing, I asked about the increase in foreign holdings of United States debt. As you know, foreign holdings of U.S. debt have increased from approximately $1 trillion to nearly $2 trillion in only 4 years.

Considering foreign central banks control the bulk of foreign ownership of U.S. debt, their ability to affect our economy seems very real. I think this poses an economic and national security threat, should these governments choose to sell large volumes of U.S. securities on the open market resulting in valuation issues and interest rate escalation.

As of November 2004, foreigners owned 44 percent of the debt held by the public. I asked you at what point foreign holdings of U.S. debt could become a problem for the U.S. economy and our National security. You responded that you wanted to avoid answering my question in a public forum. Therefore, I ask you to provide me with information regarding the Administration's view of what, if any, percentage of foreign ownership of our publicly held debt creates a financial vulnerability with national security implications.

It has been the Administration's position that the current U.S. budget deficit is manageable and not large as a percentage of U.S. Gross Domestic Product (GDP). In 2004, the deficit as a percentage of GDP was −3.6%, in 2003 it was −3.5%. Since the end of World War II, the U.S. has only accumulated deficits greater than −3.6% of GDP ten times. Is it the Administration's position that the structural deficits of the Federal Government, especially given our future demographic challenges, are manageable as a percentage of GDP?

Federal Reserve Chairman Alan Greenspan recently stated, [the deficit] "situation suggests that international investors will eventually adjust their accumulation of dollar assets or, alternatively, seek higher dollar returns to offset concentration risk."

It seems to me Chairman Greenspan is saying, we can't go on like this much longer. A borrower who runs up huge debts will become a bigger risk to lenders. Presently, the U.S. is a huge borrower. Last Friday, the Russian central bank confirmed that it has started pegging the ruble to a basket of currencies rather than solely to the dollar. This action will likely provide a major source of long-term euro buying. For the first time in almost 70 years, the dollar has a rival currency in the euro. During the past 2 years, the world has gone from having only 12% of global bank reserves in euros to 35% today.

It appears that the Administration has abandoned the "strong dollar" policy. Do you think that the United States runs the risk of the global economy loosing faith in the dollar and what is the Administration doing to ensure that the value of the dollar does not continue its sharp decline?

Response:

It appears that the Administration has abandoned the "strong dollar" policy. Do you think that the United States runs the risk of the global economy loosing faith in the dollar and what is the Administration doing to ensure that the value of the dollar does not continue its sharp decline?

The Administration faces two distinct deficit challenges. The ways to address these two separate problems are different. It would be a mistake to mix the two problems and two solutions together by talking only about whether the "deficit" is manageable as a percentage of GDP.

We have a "short-term" deficit problem, which we are addressing in our FY06 budget proposal. We have argued that deficits are sometimes appropriate, and we have been in one of those periods recently. We have had to ramp up defense and homeland security spending to prosecute the war on terror and to improve our domestic security. We cut taxes to stimulate the economy as it struggled through the after-effects of the stock market decline and the uncertainty generated by the initial phases of the war on terror and revelations of corporate malfeasance dating back to the nineties.

In the FY2006 budget, we've made a strong commitment to spend the public's money appropriately and rein in spending to make long-lasting improvements in the deficit. The FY06 budget proposes a 1 percent cut in non-security discretionary spending and holds overall discretionary spending to 2.1 percent—below the rate of inflation. If we hold the line on spending we expect the deficit to decline to well below 2 percent as a percentage of GDP.

We think that if we don't hold the line on spending and revenue grows as projected then our "temporary" budget deficits will remain with us for a very long time. In that sense, our deficits could become structural, and not just related to the recent weakness in the economy.

The Administration firmly believes that long-term structural budget deficits do matter. A long string of structural budget deficits strongly suggests that government spending is out of control. Too much government spending for too many years actu-

ally slows the long-term growth of the economy, by diverting resources away from the private sector, which is the source of the goods and services and jobs that keeps our nation prosperous, strong, and resilient.

Our longer term deficit challenge is related to the expected increases in outlays for the Social Security and Medicare Programs, which will balloon in the coming decade as the Baby Boom generation retires. OMB estimates that outlays for these two programs alone will rise from 6.6 percent of GDP in 2005 to 16.8 percent of GDP in 2075. Traditional fixes to budget deficits—like cutting discretionary spending and/or raising taxes—simply cannot do the job of balancing the budget with the current expected increases in outlays for these two programs.

Putting Social Security on a sustainable path is the first step to dealing with the long-term deficit challenge facing the U.S. The administration firmly believes that some form of personal retirement accounts (PRAs) is needed to keep Social Security secure for future generations.

Holdings of U.S. Treasury securities by all foreign residents, as described in the attached table, are estimated to have been $1.9 trillion, or 52.8% of privately held public debt, at the end of December, 2004. The total holdings of all foreign official institutions is estimated to have been $1.1 trillion, or 32.0% of privately held public debt at the end of December, 2004. Foreign holdings of Treasury securities are distributed among many official and private foreign investors.

To put this in perspective of U.S. capital markets, privately held public debt is only about 15% of the domestic nonfinancial credit market. The U.S. capital market is the deepest, most liquid, and resilient in the world.

Our policy remains one of a strong dollar. A strong currency provides a reliable medium of exchange and serves as a stable store of value, which are very much in the interest of Americans.

The increase of the U.S. current account deficit over more than a decade has been linked to domestic U.S. capital formation increasing more than U.S. saving.

U.S. economic fundamentals—with low inflation, flexible labor markets and vigorous productivity growth—are extremely strong, especially in international comparison. This combined with an efficient and secure U.S. capital market make the U.S. an attractive foreign investment destination. The Administration is committed to growth enhancing, economic policies that keep U.S. fundamentals strong and maintain the confidence of U.S. and foreign investors in our economy's future.

Questions Submitted by Representative Becerra

Question: Do you disagree with the assessment made earlier during the hearing that the amount of revenue generated by not making tax cuts permanent for the wealthiest 1% would be sufficient to make Social Security solvent for the foreseeable future?

Response:

Question: Do you disagree with the assessment made earlier during the hearing that the amount of revenue generated by not making tax cuts permanent for the wealthiest 1% would be sufficient to make Social Security solvent for the foreseeable future?

The recent tax cuts have had no effect on Social Security's finances. Social Security benefits are financed entirely from payroll taxes and there has been no change to the payroll tax system since the Administration took office. If non-Social Security taxes were raised, those moneys would not be available to fund Social Security benefits.

Program revenues, including Trust Fund accumulations, are used exclusively to fund outlays. Since the enactment of those tax cuts, the economy has grown at almost 4% per year and the American people have created 3 million jobs. Repealing those tax cuts would harm the economy in the short and long term, and that is not going to provide any sensible fix to Social Security.

Questions Submitted by Representative Doggett

Question: The House Republican Study Committee has said that the Administration's approach is too timid by allowing worker's to invest 4 percent of their pay in private accounts and that it ought to go to 6 percent, which would be almost all of the employee's contribution to Social Security. Why isn't the Administration proposing that?

Response:

Question: The House Republican Study Committee has said that the Administration's approach is too timid by allowing worker's to invest 4 percent of their pay in

private accounts and that it ought to go to 6 percent, which would be almost all of the employee's contribution to Social Security. Why isn't the Administration proposing that?

The Administration settled on a 4 percent contribution rate as sufficient and appropriate. A major advantage of PRAs is that they ensure that pre-funding of retirement incomes occurs in personal accounts rather than the Social Security Trust Fund. The Administration believes that any attempt to pre-fund retirement incomes in the trust fund encourages excessive spending in the non-Social Security budget, which has the effect of making the pre-funding illusory. The accounts proposed by the Administration are sufficiently large as to make real pre-funding of retirement incomes possible, and to build substantial nest eggs for millions of American workers.

Questions Submitted by Representative Thompson

Question: We are told that this budget has identified about 150 programs for elimination to save the government money. Last year, the Federal budget identified 65 programs for elimination—and that was supposed to save us about $5 billion. But, Congress only eliminated 5 of those programs for a net savings of $292 million. I agree that non-performing programs should be reviewed and when appropriate eliminated—and I agree that any dollars we can generate in savings are critically important. However, is it realistic for this Administration to base this budget in part upon the savings generated from program cuts—when it has never successfully gotten those program cuts through Congress?

Response:

Question: We are told that this budget has identified about 150 programs for elimination to save the government money. Last year, the Federal budget identified 65 programs for elimination—and that was supposed to save us about $5 billion. But, Congress only eliminated 5 of those programs for a net savings of $292 million. I agree that non-performing programs should be reviewed and when appropriate eliminated—and I agree that any dollars we can generate in savings are critically important. However, is it realistic for this Administration to base this budget in part upon the savings generated from program cuts—when it has never successfully gotten those program cuts through Congress?

The President's FY06 budget, like budgets submitted by all presidents, is his administration's set of proposals for the fiscal year and beyond. The administration's proposals are the result of careful planning and thought, representing the best estimates of the costs and benefits available. They reflect the President's goals. It would be inappropriate for the proposed budget to limit proposals only to those that had already been backed by a majority of Congress.

In this budget, we propose more than 150 reductions, reforms, and eliminations in non-security discretionary programs, saving about $20 billion in 2006 alone. We were guided by three major criteria for evaluating programs: (1) the program should meet the nation's priorities, (2) the program should meet the President's principles for using taxpayer resources, and (3) the program should produce the intended results.

By holding government spending to these accountability standards, we are trying to make sure that tax dollars are spent wisely and that the essential business of the government be carried out by taking the least possible amount of money from American taxpayers.

The FY06 budget proposes a 1 percent cut in non-security discretionary spending and holds overall discretionary spending to 2.1 percent—below the rate of inflation. If we hold the line on spending we expect the deficit to decline to well below 2 percent as a percentage of GDP.

The Administration firmly believes that structural budget deficits do matter. A long string of structural budget deficits strongly suggests that government spending is out of control. Too much government spending for too many years actually slows the long-term growth of the economy, by diverting resources away from the private sector, which is the source of the goods and services and jobs that keeps our nation prosperous, strong, and resilient.

Questions Submitted by Representative Larson

Question: The first question that is on the minds of a number—people who meet with my mother, they are called The Golden Girls, and they are from the greatest generation. What they wonder is why we just don't pay

the money back. They are concerned about all this talk about surplus and deficit, and they have been a generation that witnessed a great deal of sacrifice. They want to know in plain language why don't we just pay that money back that we owe.

Secondly, they want to know, and it is especially important given Mr. Rangel's concerns about—and mine and others about the Social Security, the transition costs not appearing in the budget, the cost of the war currently and ongoing not in the budget. They want to know is the war being funded with the Social Security surplus? Because, in their generation, they sacrificed, and there were funds that were created especially, and they specifically went on drives and they paid as they go for this effort. They see this as contrary to all the kind of sacrifice that they had.

Thirdly, and the question was posed by many Members here about thrift savings and the idea that—even as was mentioned before about possibly with the AARP sitting down to make sure that these go into safe accounts if the President's plan were to be followed. Well, the question is why don't we take the existing account of Social Security within the context of Social Security and apply those same financial tools without having to take it outside of the system and privatize it? Wouldn't that give them greater assets and greater return with a greater amount of money? Those are the questions that my constituents pose. The final question is more one of a little bit—I know that there is no discussion of politics and ideology, but the question that they have is it seems to them, at least a generation that believed in the common wealth going toward the common good, that the ownership society smacks of a "me society," and where we are exalting the individual at the expense of the collective good. I know that that is somewhat philosophical and ideological, but I would appreciate your comments.

Response:

The President has made it clear that Social Security will remain unchanged for anyone who was born before 1950.

The Social Security Trust Fund's bonds represent obligations to pay Social Security benefits. When those IOUs need to be redeemed, future generations will either have to raise taxes, reduce Social Security benefits, cut other programs, or run larger budget deficits.

It is important to remember that even with every bond held in the Social Security Trust Fund being repaid, Social Security would still become insolvent in 2041. So the issue confronting us is much more serious than simply the repayment of bonds held by the Trust Fund.

The existence of bonds in the Social Security Trust Fund does not by itself answer the question of where the money will come from to redeem those bonds and fund future benefits. If it did, then all we would need to do to fix Social Security is to issue more bonds to the Social Security Trust Fund.

Unfortunately, the bonds in the Social Security Trust Fund do not represent any real saving that the government has done. They only represent our obligation to generate funds in the future.

That's why it's time to strengthen and modernize Social Security for future generations with growing assets that workers can control, that they can call their own—assets that the government cannot take away.

If the President's proposals are adopted, workers who choose PRA's would personally own the assets within those accounts. Younger workers would not have to wonder whether the Government will "cut" the PRA's, because they would own the assets themselves.

The DOD budget has had no effect on Social Security's finances. Surpluses generated by Social Security must by law be invested in U. S. Treasury securities.

This process of crediting the trust fund with payroll taxes occurs regardless of whether the overall budget for the Federal Government is in surplus, in perfect balance, or in deficit.

The President opposes investing trust funds directly in private markets. He favors the establishment of personal accounts within the current Social Security system. The personal accounts would be a part of Social Security, a way of making sure that some Social Security money is saved.

Investing the trust fund directly in the private markets has two fatal flaws. First, it would be extremely difficult for the government to invest Trust Fund assets in a manner that all asset sellers would regard as fair, and the government would likely feel pressure to politicize the trust fund investment process.

Secondly, a major advantage of PRAs is that they ensure that pre-funding of retirement incomes occurs in accounts that workers personally own, and would have

the ability to personally pass on to their loved ones at death, which is not the case with a collective fund.

The Administration supports a progressive Social Security system whereby Social Security remains a better deal for low-wage workers than it is for high-wage workers.

Making the Social Security system sustainable over the long run and letting more workers enjoy the benefits of financial asset ownership would enhance the common good of the United States.

[Submissions for the record follow:]

Statement of the Embassy of the Government of Peru

The Embassy of Peru congratulates the Ways and Means Committee of the House of Representatives for holding a hearing and receiving written statements regarding the President's Fiscal Year 2006 Budget.

We understand that the Office of Management and Budget (OMB) has presented a budget in the framework of the Andean Counter-drug Initiative of US$ 734.5 million ($ 3.5 million more than Fiscal Year 2005). Unfortunately, in said initiative the amount assigned for drug cooperation to Peru is US$ 97 million or a proposed reduction of more than US$ 18 million (-16%) in comparison to Fiscal Year 2005 (US$ 115.37 million).

Within the full respect for U.S. legislation, the Government of Peru would like to express its utmost concern about the proposal to reduce the amount for bilateral anti-drugs cooperation with Peru in the U.S. Budget for Fiscal Year 2006. We see this proposed reduction as counter productive, particularly if we take into account the significant progress made in the fight against drug-trafficking and the challenges we must face.

Peru and the United States share the same interest to cooperate against illegal drugs as they see this matter as a grave menace to national and hemispheric security. That is the reason why the fight against drug-trafficking has been placed as one of the high priorities of the Government of Peru in the last years. Positive results based on this effort are at hand, where close to 30,000 hectares have been eradicated in the last three years and almost 14 tons of cocaine and basic paste of cocaine have been seized from drug traffickers in the same period. These results would have not been achieved without the commitment of our Government and the support provided by the United States. However, to continue with this effort, the valuable and important support of the United Stated is needed.

Furthermore, the reduction of these cooperation funds will have a negative effect in the progress we have obtained in the fight against drug-trafficking. Due to the success of "Plan Colombia" on the eradication of coca crops, a "balloon effect" has developed, where new coca crops have started to grow in neighboring countries. We have to realize that from a regional perspective facing this problem will have a negative correlation effect for the interdiction and eradication success in other countries of the region. Issues like security, drug trafficking and terrorism are closely related and the support of the United States is vital to continue facing together, as partners, these new challenges.

We believe that the House of Representatives has an important role to play in this matter. We also believe it has the power to re-examine the Administration proposal for Fiscal Year 2006 in regard to the Andean Counter Drug Initiative and, particularly, the proposed amount assigned for the cooperation with Peru. Therefore, we respectfully request that the proposed anti-drug cooperation funds for Fiscal Year 2006 be reconsidered or, at least, the amount provided by the U.S. Congress for Fiscal Year 2005 be maintained.

Co-responsibility is relevant because drug-trafficking affects both countries. We have to stop the demand as well as the supply.

The U.S. Congress is aware and very supportive of the efforts carried out by Peru in the fight against illegal drugs in the Andean Region. In 1991, U.S Congress approved the Andean Trade Preferences Act (ATPA) which was renewed and expanded by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) of 2002. These U.S. laws have significantly contributed to coca eradication efforts in Peru by providing farmers and other populations at risk, with alternative economic activities to the highly profitable illegal crops.

Thanks to the benefits provided by the ATPDEA, in 2004 our exports to the United States grew by more than 51.8 %. Textiles and apparel, agro-products and

gold jewelry lead the expansion of sales to the US, generating thousands of new jobs and improving the livelihood of peasants and workers in Peru, especially in rural areas.

Our government is firmly committed to the fight against drug trafficking. It created the National Commission for Development and Life without Drugs (DEVIDA), to design, conduct, and supervise the anti-drug policy and rehabilitation programs in Peru.

On January 21, 2005, the Peruvian Government approved an updated version of the Peruvian National Strategy to Fight Drugs 2002–2007, which focuses on four major actions:

Reduction of the drug consumption and rehabilitation
Interdiction
Alternative development and protection of the environment
Eradication and auto eradication of illicit crops

These four actions have to be sustained in time and executed in a coordinated manner.

It is very difficult to tell a "cocalero", a farmer who grows coca leaves, to cease his activities if we do not provide him with an alternative crop. A licit crop may generate sufficient profit for him to stop growing coca plants. In the areas where coca is grown there is not just one crop that may be harvested, but several like coffee, palm oil, cocoa, cotton, corn, peanuts and fruits. We currently have several projects for all these products.

As stated previously, we have to give farmers a chance to develop alternative crops and protect the environment. The production of alternative crops is only feasible if they can be delivered to major markets, either in Peru or abroad, where they can be sold. In this regard, the U.S. Government is cooperating in the rehabilitation of the important road between Juanjui and Tocache, in the Peruvian rainforest, through the U.S. Agency for International Development (USAID).

As far as the environment is concerned, we know that drug traffickers do not care about protecting the environment. All the chemicals used in the elaboration of cocaine and its derivatives, many of them highly toxic, are thrown into the rivers of the highlands and jungle of Peru, contaminating clean waters and endangering wild flora and fauna.

Current drug cooperation between the two countries has led to important results in the fight against drug trafficking. The efforts of Peruvian authorities have been very important, and the projected goals or eradication have been achieved in the last two years. As shown in the following chart, in the last three years, almost 30,000 hectares of coca crops have been eradicated, either through forced or voluntary eradication.

Coca Crops Eradication (Hectares)	2002	2003	2004
Forced eradication	7,134	7,022	7,605
Voluntary eradication	0	4,291	2,733
Total	**7,134**	**11,313**	**10,338**

Source: DEVIDA

Interdiction

Alternative development and eradication are not the only actions that our Government has taken to fight against drug trafficking. Our National Police, in cooperation with foreign enforcement agencies, have been able to seize great amounts of cocaine ready to be shipped to the United States, Mexico and Europe. In comparison to 2003, there was an increase of 71.69% in the amount of illegal drugs seized in 2004.

Illegal Drugs (kgs.)	2002	2003	2004
Seized:			
Basic Paste of Cocaine	10,439	4,366	6,329
Cocaine	4,129	3,574	7,303
Total	**14,568**	**7,940**	**13,632**

Security

It is undeniable that there is a criminal link between terrorists and drug-traffickers, not only in our country but also in other parts of the world. Illegal profits obtained from drug-trafficking may be used to buy weapons, bombs, etc. for terrorists. This "alliance" must be considered a threat to security, not only on a national level but on the hemispheric and global arena. Currently, the actions of terrorist groups, as well as drug-traffickers are not limited by official borders of countries. We must take into account that these groups move and act in less protected places where they still feel safe. The way they are organized, they are able to transcend those borders, and become a threat to security. We must be prepared to face and fight this new threat.

Due to the new and enormous challenges that we must face in the fight against drug trafficking, our Government truly and respectfully considers that anti-drug cooperation should be increased and not reduced.

The above mentioned positive results in the fight against illegal drugs, based on the cooperation between our two countries, prove that there has been important progress in the last years. Consequently, we need to continue working together to face these challenges with the valuable support of the United States.

Statement of Paul Stevens, Investment Company Institute

Chairman Thomas, Members of the Ways and Means Committee, I am Paul Stevens, President of the Investment Company Institute, the national association of mutual funds. On behalf of our many members who manage more than eight trillion dollars on behalf of nearly 90 million individual investors, I thank you for the opportunity to address the important tax, savings and retirement policy proposals the President has put forward for the coming year.

I. The Mutual Fund Industry's Role in Expanding Americans' Access to Ownership

Nearly half of all U.S. households—and nearly two-thirds of middle-income households—invest in mutual funds. Individuals from every walk of life choose to invest in mutual funds for the diversification, professional management and varying investment objectives that funds provide. Americans may invest in mutual funds through taxable accounts, retirement accounts, or qualified tuition programs (more commonly known as "529 Plans").

The powerful impact that mutual fund popularity has had on the economy, on jobs, and on access to the markets for workers and small business is equally significant. Several years ago, *The Economist* reported that mutual funds had emerged as "the biggest source of capital for American companies . . . giving small and medium-sized businesses unprecedented access to capital markets and thereby financing nearly all of America's employment growth."[1]

In its 2002 study of the mutual fund industry, Congress' Joint Economic Committee found that mutual funds provide increased savings opportunities for Americans and ready and stable sources of capital for America's financial markets:[2]

The size and flexibility of mutual fund complexes, and of some individual funds, enable them to choose among a much wider range of investments than individual investors can. Mutual funds make markets in those investments more efficient by allocating capital so its marginal product tends to be substantially the same for different users. Mutual funds are just one of a few institutions that can, at the margin, bring supply and demand together for different types of financial instruments to maximize the aggregate real return on capital in society.[3]

In short,mutual funds are both an essential vehicle for enabling middle-income Americans to reach their long-term savings goals and an important source of capital and growth for the American economy.

II. The Mutual Fund Industry's Role in Preparing for Retirement

Mutual funds play a particularly important role in helping millions of Americans prepare for a financially secure retirement. Funds are an important investment medium for employer-sponsored retirement programs (*e.g.,* section 401(k) plans) as well

[1] "The Seismic Shift in American Finance: Mutual Funds," *The Economist*, October 21, 1995.

[2] *The Mutual Fund Industry: An Overview and Analysis*, Joint Economic Committee, United States Congress, February 2002.

[3] Ibid, page 22.

as for individual savings vehicles (*e.g.,* individual retirement accounts ("IRAs")). Of the $2.9 trillion in 401(k) plan and other defined contribution assets accumulating for American workers as of December 31, 2003, $1.4 trillion—almost half—was invested in mutual funds. Similarly, of the $3 trillion in IRAs, $1.3 trillion was invested in mutual funds. In addition to their role as important savings and investment vehicles, mutual fund companies also provide a broad range of services to defined contribution plans, such as 401(k) plans, and individual account plans, such as IRAs. These services include recordkeeping, tax compliance and reporting and participant education services.

Intertwined as we are with Americans' retirement savings, the mutual fund industry believes it can offer a helpful perspective on the urgent retirement security issues now central to so many challenges—challenges facing Washington lawmakers, regulators, businesses and working families.

The President has launched a historic debate on both Social Security reform and retirement security proposals needed to strengthen the other legs of the retirement income stool—private pensions and individual savings. The President's budget sets forth a number of specific provisions that we believe hold great promise for encouraging the growth and retention of individual savings, strengthening the economy, promoting the adoption and continuation of employer-sponsor pension plans to supplement savings and Social Security, and much more. We welcome the opportunity to assist policymakers in addressing these issues. With the growth of defined contribution pension plans, retirement planning increasingly involves individual decisions and individual education about alternatives that can seem quite complex and overwhelming. In fact, an ICI household survey found that about a third of those offered but not participating in a 401(k) plan did not participate because of confusion about plan features. We want to work with you to break through the complexity and to expand savings opportunities as the President has challenged us all to do together.

III. Social Security

To set our comments on specific tax initiatives in context, let me begin by addressing Social Security. The Institute believes it is imperative to ensure the permanent solvency and sustainability of the Social Security system. To this end, ICI commends the Bush Administration's effort to develop and propose appropriate reforms of the system. And the Institute commends the Chairman's leadership in encouraging all parties to be broad and creative in analyzing this challenge and seeking constructive solutions.

The Institute strongly supports maintaining Social Security as a universal system, and one that provides a floor benefit to those many Americans who rely principally on Social Security for retirement income. Preserving the fiscal soundness and fairness of the Social Security system will help ensure Americans' continued faith in and support of the program.

The Institute thus strongly supports the Administration's close and timely attention to Social Security reform. All credible reform options should be considered carefully. Under one such proposal, younger workers would have the option to place a portion of their Social Security contributions into a personal account invested in a government-sponsored fund or funds similar to those available to federal employees under the Thrift Savings Plan ("TSP"). The Institute believes that any proposal for personal accounts should be judged by whether they will bolster the permanent solvency and sustainability of the Social Security system.

Personal accounts could provide other benefits in addition to retirement income. They would introduce many more Americans to basic principles of saving and investing. Encouraging American workers to focus more broadly on these basic principles could have very positive effects—including, for example, prompting them to make additional provisions for their retirement security through individual savings and employer-sponsored plans.

If reform of the Social Security system entails opportunities for younger workers to invest in personal accounts, then care must be taken to protect them as investors, through measures similar to those in the federal securities laws, and to educate them about investing. The Institute has substantial expertise concerning such issues. Several federal agencies have important and intersecting roles to play in these areas and are hard at work with them currently in various initiatives aimed at improving disclosure to investors, making more comparable the information pension plan managers must analyze, and strengthening the tracking systems that will restore and enhance investor confidence in complicated systems needed to implement individual decisions in today's changing retirement plan landscape. We look forward to working with the Administration and Congress as they consider a range of proposals to enhance retirement security.

We welcome the ongoing efforts of Congress and the Administration to expand private retirement programs and savings opportunities and to simplify the rules governing them. As noted above, these private programs, such as IRAs and employer-sponsored plans, are also essential to Americans' retirement security. The greater their success and the more widespread their use, the less pressure the Social Security system will be under in the future.

Million of retirees today receive income above Social Security thanks to their employer-sponsored pensions and their savings. We know, too, that IRAs have been a tremendous success, particularly in the years in which decisions to save were not inhibited by the complexity of changing deduction and eligibility limits. However, we also know that much more is needed. Of the 151 million Americans working today, only 63.5 million, or less than half, are earning benefits under an employer's retirement plan. We also know that savings opportunities through IRAs and other options have been constrained over time, often for revenue raising reasons, and in time those constraints may appear increasingly costly, so to speak. The President proposes several important initiatives promoting greater retirement security for the future and we welcome the opportunity to work with the Committee to bring them to fruition.

IV. EGTRRA Permanence

The Institute strongly supports the President's proposal to make permanent the retirement and education savings provisions enacted by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). Among the important improvements to our retirement system, EGTRRA:

Increased contribution limits to IRAs—limits that had not been increased (even for inflation) since 1981;

Increased the contribution limits to employer-sponsored retirement plans, such as 401(k) plans, 403(b) arrangements, and governmental 457 plans;

Provided for "catch-up" contributions to be made by individuals age 50 and over to employer-sponsored plans and IRAs;

Made retirement assets significantly more portable, especially among different types of retirement plans, such as 401(k) plans, 403(b) plans, 457 plans, and IRAs; and

Created additional long-term savings incentives for education savings vehicles such as section 529 Plans and Coverdell education savings accounts (formerly, education IRAs).

Unless EGTRRA's retirement and education savings provisions are made permanent, the restrictive savings rules that applied in 2001 will once again be law in 2011. Making EGTRRA's provisions permanent will promote economic growth and individual savings and financial security. For individuals to plan appropriately for their retirement years, they must be able to rely on predictable rules—rules that apply now and throughout their career and retirement.[4] The future termination of these provisions could affect the long-term savings strategies of working Americans, undermining the purpose of these reforms and jeopardizing saving and long-term growth.

V. JGTRRA Permanence

The Institute strongly supports the President's proposal to make permanent the important savings and investment provisions enacted by the Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA"), including reduced tax rates on capital gains and qualifying dividends. JGTRRA reduced the tax rate on long-term capital gains. The 20 percent rate has been reduced to 15 percent; the 10 percent rate has been reduced to 5 percent through 2007 and will be reduced to zero in 2008. Unless the changes enacted by JGTRRA are made permanent, the higher rates will be reinstated for tax years beginning in 2009. JGTRRA also reduced the tax rate on qualified dividend income (as defined in the Act) to the 15 percent and 5 percent capital gains rates. These lower rates expire after December 31, 2008.

Just as employer plans and individual retirement savings habits are best served by consistent and predictable retirement laws, corporations and individuals are also best served by consistent and predictable expectations. Both individual investors and the financial markets need certainty in order to plan for the future. It is therefore imperative that the provisions of JGTRRA be made permanent

[4] Americans will be better positioned to build adequate retirement plans if they know now whether, for example, they will be able to contribute $2,000 or $5,000 to an IRA in 2011 and whether they will be able to make catch-up contributions.

VI. Simplifying & Strengthening Private Savings Opportunities

The Institute has long supported initiatives to enhance financial security by advocating efforts to encourage retirement savings through employer-sponsored plans and IRAs, to simplify the rules applicable to retirement savings vehicles, to enable individuals to better understand and manage their retirement assets, to encourage college savings, and to reduce the tax burden on other long-term investing through mutual funds.

The President's budget includes several important savings incentives. One bold initiative is the proposed creation of Retirement Savings Accounts, Lifetime Savings Accounts and Employer Retirement Savings Accounts. These three new retirement and savings vehicles would both enhance the ability of Americans to save for their future and simplify the current rules governing retirement plans. The Institute strongly supports savings and simplification initiatives that would bring long-term savings and investment opportunities within the reach of every working American.

Comprehensive reform like the President's proposals will significantly reduce the overwhelming complexity of our current savings system. Today's rules governing retirement and education saving are simply too difficult to understand and too unwieldy and costly to administer. Simple universal savings vehicles, without age and income limits and other burdensome restrictions, will give Americans of all income levels and in all workplaces greater opportunities to achieve retirement security.

There are other important retirement savings proposals that can enhance the effectiveness of those discussed above. They include proposals to automatically enroll employees in 401(k) plans, to offer new ways of efficiently managing small accounts for missing accountholders, to expand access to the investment advice that defined contribution plan participants need as their choices expand in number and complexity, and more. On many of these initiatives, the Administration has already taken the lead and we welcome the opportunity to work with the Congress as the entire retirement security discussion moves forward.

VII. Clarifying Section 529 Qualified Tuition Program

Helping American families save for the ever-increasing cost of college is a longstanding and important policy goal. Congress furthered this goal by enacting Code section 529 as part of the Small Business Job Protection Act of 1996 and granting certain federal tax benefits to these state-sponsored "529 Plans." In 2001, EGTRRA significantly enhanced 529 Plans by allowing tax-free treatment of distributions used to pay for qualified higher education expenses.

Congress' efforts, particularly the EGTRRA enhancements, increased investor awareness and participation dramatically. Assets in 529 Plans more than doubled since 2002, increasing from $26.8 billion at year-end 2002 to $57 billion by September 2004. During the same period, the number of 529 Plan accounts rose to more than 7 million, and the average account balance was approximately $8,000.[5] Although these statistics are encouraging, many Americans who want to save for college still do not save enough.[6] Legislation making permanent the tax-free treatment of qualified deferrals from section 529 plans will remove uncertainty, encourage long-term savings for education, and enhance economic growth and productivity. The Institute supports prompt enactment of legislation making permanent this important savings program.

The President's budget includes proposals to clarify the gift and estate tax consequences of contributions to 529 Plans. Among other things, the Administration's proposal would impose an excise tax of as much as 50% on certain distributions above $50,000 (computed on a cumulative, lifetime basis for each designated beneficiary). While the proposed clarifications are intended to eliminate transactions designed to avoid gift and estate tax consequences, they have the unintended effect of making 529 Plans significantly less attractive for American families saving for college. We look forward to continuing our dialogue with the Treasury Department to address its concerns without significantly compromising this important college savings tool.

VIII. Deferring Taxation of Reinvested Mutual Fund Capital Gains Distributions

The Institute strongly supports legislation that would permit the deferral of the payment of tax on capital gains realized by a fund until the fund shareholder receives the gain in cash, such as by redeeming fund shares. This proposal would remedy the result, misunderstood by many fund shareholders, that capital gains real-

[5] *ICI Memorandum 18530*.

[6] *See Profiles of American Households Saving For College*, ICI Research Series, Fall 2003.

ized by the fund are taxed currently to the fund's long-term shareholders—who continue to hold, rather than sell, their shares.

If this type of legislation were enacted, the millions of fund shareholders investing in taxable accounts would benefit. These investors are mainly middle-income investors who are providing capital necessary for continued economic growth—their own and the country's. At a time when the retirement community is struggling to prevent leakage of retirement savings, to encourage portability among retirement investments, and to address tax provisions that present obstacles to the retention of sufficient retirement savings to last through the much longer retirement many Americans now experience, it's right that this idea, too, should be put forward in the tax and retirement debate.

By reducing current tax bills and allowing earnings to grow tax-deferred, this change would boost long-term savings. The proposal would not result in these gains being excluded from tax. Instead, the gains would merely be deferred, albeit, in some cases, outside the relevant budget-scoring period. The proposal's boost to long-term savings would have little, if any, long-term cost and would provide benefits to the economy in both the short run and the long run. It would eliminate an event that threatens to prematurely interrupt long-term savings, as would proposals to delay the minimum required distribution "start-date" that forces savings out of IRAs.

IX. Conclusion

The Investment Company Institute thanks you, Mr. Chairman, for this opportunity to be heard. We also thank you for your interest in related policy issues—for example, health care reform and additional savings opportunities for health care expenditures—that will be important complements to other savings initiatives and will help make retirement security an achievable goal. The Institute is proud of its research capacity, its expertise in economic analysis and its educational efforts to reach special populations with savings and investing tools, and we welcome the opportunity to work with you on the challenges ahead. Thank you for the opportunity to present our views.

Statement of Janie Williams, Ridgecrest, California

Members of the Committee,

I don't have a ten page letter. I don't have anyone else standing as a witness to the letter. I do have a reason to voice my opinion. I do have a right to voice my opinion. I just hope this request doesn't fall on deaf ears.

The way our nation is taxed needs to be changed. A person in Congress told me once "by its roots" is how you should pull our tax system up. That was a nice term to use. I think that the House and Senate need to stop putting off what can be done today. Maybe instead of just pulling by the roots, we need to use some Roundup too, just to top it off.

With our taxes, the decisions need to be made in the present time. Not a few years from now. If the House and Senate were scientists, we'd never learn anything. You can't judge something only my theories and statistics. It eventually has to be put into the laboratory. If the House and Senate were a laboratory and waited this long to find out if something works or not, the rats would all be dead! Okay, that isn't a good comparison, I know. But, this isn't only like the laboratory not doing anything, but the House and Senate decision making skills are a lot like the United Nations and the Sudan situation. Getting paid for no progress. To sit on decisions for such small arguments between parties is not acceptable. We need to get things rolling. I hope this doesn't offend you all. I just want the guys and gals in the government to understand how much pressure there is on people to do their jobs and money is needed to do so. I am a teacher. With my job, money is very limited. We need more tax dollars for education. We need to decide where our tax money goes. If we had that Sales Tax, that would make everyone help pay the bill, even foreign visitors.

There was the bill passed for No Child Left Behind. Now that it was passed, give us the REAL money to pay the bills it's left us with. I hope that all those who work in the House and Senate will vote for the Sales Tax. It makes people remain respon-

sible for what they spend their money on and makes us the money instantly. We won't have to waiting for the IRS to lose it.

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